

Bharat Petroleum Corporation Limited

June 25, 2021

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debentures	550	CARE AAA (CWD) (Triple A) (Under credit watch with developing implications)	Continues on credit watch with developing implications
Non-Convertible Debentures	750		
Non-Convertible Debentures	1,000		
Non-Convertible Debentures	1,995.20		
Non-Convertible Debentures (Proposed)	1004.80		
Total	5,300 (Rs. Five thousand Three hundred crore only)		
Commercial Paper	11,500 (Rs. Eleven thousand Five hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Bharat Petroleum Corporation Limited (BPCL) majorly derives strength from parentage of, and continuation of its strategic importance to and support from Government of India (GoI) till the divestment of GoI stake takes place. The ratings are further strengthened by the company's strong operational profile driven by dominant market position supported by established marketing and distribution network and sizeable refining capacity (around 14.27% of India's refining capacity), GoI's measures for reducing oil under-recoveries of Oil Marketing Companies (OMCs) as well as comfortable capital structure and debt credit metrics.

The aforementioned rating strengths are tempered by company's vulnerability of profits to volatility and moderation in crack spreads and weakness in refining margins. The ratings are further tempered by project implementation risk due to sizeable capital expenditure, lack of a transparent policy mechanism regarding absorption of under-recoveries for LPG and kerosene, as well as increasing competition among the PSU peers as well as from private players and competitive industry scenario.

The long-term rating of BPCL continues to be 'under Credit Watch with Developing Implications' on account of announcement of Government of India's entire stake sale in BPCL along with transfer of management control to a strategic player. The company in March 2021, after receipt approvals has divested its entire stake of 61.65% in NRL for a consideration of Rs.9,876 crore. Post receipt of technical bids, GoI in April 2021 has opened a data room to access, to conduct due diligence and submit the final bids. The transaction is expected to reach closure by end of FY22.

CARE continues to monitor the developments in this regard and will take appropriate action depending upon the same.

Rating Sensitivities

Positive Factors – Not Applicable

Negative Factors

- Credit profile of new promoter being weaker than the current promoter
- Significant increase in absorption of sales-related under recoveries
- Deterioration in overall gearing beyond 1.50x on a consistent basis

Detailed description of the key rating drivers

Key Rating Strengths

Parentage of, strategic importance to, and demonstrated support from Government of India

BPCL is Government of India (GoI) owned (52.98% as on March 31, 2021) and is of strategic importance to GoI for achievement of its socio-economic goals. Oil Marketing Companies (OMCs) have a dominant position in the domestic market for key petroleum products such as High Speed Diesel (HSD), Motor Spirit (MS), Superior Kerosene Oil and Liquefied Petroleum Gas (LPG). GoI consistently supports OMCs by absorbing a good portion of the sales-related under-recoveries through subsidies.

Also, the Government directs upstream companies to sell to OMCs at a discount in order to compensate for the under-recoveries on regulated products.

However, with the announcement of stake sale by Gol, the credit profile as well as importance/ support from the strategic buyer (when identified) to the rated entity will be key rating sensitivity.

Integrated oil refining and marketing company

BPCL has its presence in both upstream and downstream segments. It is India's second-largest OMC with domestic sales volume of over 39.05 MMT in FY21 and is India's third-largest refining company with a total refining capacity of 35.30 MMT (on consolidated basis), representing around 14.27% of India's total refining capacity as on March 31, 2021. BPCL, through its subsidiary Bharat Petro Resources Limited (BPRL), has presence in upstream exploration and production business. It owns 20 Blocks in 7 countries. With 18,637 retail outlets (as on March 31, 2021), BPCL has second largest nationwide marketing set up in the country for the sale of petroleum products.

Strong operational profile

BPCL (along with its Subsidiaries/Joint Venture) has three major refineries located at Mumbai, Kochi and Bina. Mumbai refinery has a capacity of 12 MMTPA and Kochi has a current capacity of 15.5 MMTPA. Bharat Oman Refineries Limited has 7.8 MMTPA refinery at Bina in Madhya Pradesh, making it a total consolidated capacity of 35.3 MMTPA and standalone capacity of 27.5 MMTPA. The capacity utilization for the refineries of the company is consistently high, indicating strong operating efficiency. The refineries (Mumbai & Kochi) are located near the coast, which provides an advantage to the company in saving transportation costs.

BPCL, during FY21 reported GRM (including inventory gain) of \$4.06/ bbl as compared to \$2.50/bbl in FY20. However, Core GRM declined to \$1.8/bbl as against \$4.3/bbl in FY20, mainly on account of weak product cracks, which improved Q-o-Q during the year. Product cracks moderated due to weak demand for petroleum products owing to pandemic led economic slowdown. However, with gradual opening up of economy, the cracks have improved.

Comfortable capital structure and debt credit metrics

BPCL's financial risk profile is marked by comfortable capital structure and debt credit metrics. On a consolidated basis, the debt-equity ratio improved from 1.25x as on March 31, 2020 to 0.82x as on March 31, 2021 whereas overall gearing improved from 1.71x as on March 31, 2020 to 0.90x as on March 31, 2021. The improvement was on account of higher profits generated during the year owing to profit from stake sale in NRL, sale of investments and lower operational cost incurred during the year. Also both long-term and short-term debt declined as on date when compared to March 31, 2020. Total debt to Gross Cash Accruals improved significantly to 2.19 years in FY21 from 8.47 years in FY20, owing to higher accruals generated during the year. Interest coverage ratio improved drastically to 13.66x in FY21 from 4.05x in FY20, reason being sharp decline in interest cost as company availed fund at very low rate when compared to previous years and higher PBILDT generated.

Key Rating Weaknesses

Sizeable capital expenditure planned

BPCL on a consolidated basis intends to spend around Rs.12,000 crore in FY22, of which it would spend around Rs.3,000 crore on refinery, Rs.4,000 crore on marketing, Rs.1,000 crore on petchem project in Kerala, Rs.1800 crore on other projects and remaining in equity investments. The capital expenditure shall be funded by debt of around Rs.4,000 crore and remaining through internal accruals. Timely execution of projects within the estimated cost parameters remains the key monitorable.

Rate rationalization and extent of under-recovery compensation from Gol

With the deregulation of petrol prices in June 2010 and diesel prices in September 2014, under recoveries have reduced to a large extent. Even the prices for LPG and Kerosene are being gradually deregulated, which could further reduce the burden of under recoveries. However, in absence of any institutionalized mechanism for sharing of under-recoveries in the oil-marketing sector, BPCL's credit risk profile remains sensitive to the extent of Gol's timely support for under-recoveries.

Exposure to volatility of crude prices, crack spreads and foreign exchange rates

The oil prices and crack spreads are a function of many dynamic markets and fundamental factors such as global demand-supply dynamics, geo-political stability in countries with oil reserves, OPEC policies, exchange rates, etc. These factors have translated in high level of volatility in oil prices. The company does not hedge its inventory exposure, however it hedges product cracks, but the hedging is around 20-30% only. Thus, the company's profitability is exposed to volatility of crude prices and crack spreads as well as foreign exchange fluctuations.

Prospects

Indian oil and gas industry during Q4FY20 and FY21 witnessed sharp decline in crude prices owing to the first wave of the pandemic, which led to imposition of lockdown across the country and worldwide as well as fallout within OPEC. Due to weak demand, product cracks moderated which further led to lower GRMs. The retail prices in India did not fall in same tandem as the crude prices, leading to increase in marketing margins for the Oil Marketing companies (OMC). OMCs during H1FY21 have earned abnormal marketing margins, which led to boost in their profitability. With gradual opening up of economy, cracks also improved, similarly GRM also improved Q-o-Q. With increase in crude prices, the marketing margin started declining, however,

it were still higher than the average as the retail prices touched high.

The second wave of the pandemic, which started in the beginning of FY22, has again led to imposition of lockdown in major parts of the country, impacting the demand in May. The refineries across the country operated at around 80% during May and in June. Gradual opening up of economy in India and worldwide and rising of vaccination drives have led to improvement in demand as well as improvement in product cracks. This will lead to improved GRMs. Also, increase in crude supplies from OPEC and Iran, post lifting of sanctions, crude price is expected to be range bound.

Liquidity – Superior: BPCL derives strong financial flexibility given its size and strategic importance to and demonstrated support from GOI leading to strong fund raising/refinancing ability. The utilisation of fund based working capital limits (~Rs.10,000 crore) has been less than 50% during past 12 months. NRL stake sale, sale proceeds from shares of BPCL investment trust and strong cash accruals have led to higher cash balance as on March 31, 2021. The company as on March 31, 2021 had cash and bank balance of more than Rs.8,000 crore and current investments of around Rs.6,700 crore.

Analytical approach: Consolidated. For arriving at the ratings, CARE has considered consolidated financials of BPCL owing to financial and operational linkages and fungible cash flows between the parent and subsidiaries/ joint ventures.

Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Criteria for Short term Instruments](#)

[Rating Methodology: Notching by factoring Linkages with Government](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Consolidation](#)

About the Company:

Bharat Petroleum Corporation Limited (BPCL), a Government of India (GoI) undertaking (52.98% holding as on March 31, 2021) & a Fortune 500 company, was originally incorporated as Bharat-Shell Refineries Limited (BSRL) on November 03, 1952, by Shell Petroleum Company Limited and subsequently in 1977, the name was changed to BPCL.

BPCL is an integrated oil refining and marketing company. It is India's second-largest Oil Marketing Company (OMC) with domestic sales volume of over 38.74 MMT (million metric tonne) and market share of 22% in FY21. It is India's third-largest refining company with a total refining capacity of 35.30 MMT (including Bina Refinery), representing around 14.27% of India's total refining capacity. With around 18,637 retail outlets as on March 31, 2021, BPCL has second-largest marketing set up in the country for the sale of petroleum products. BPCL through its wholly owned subsidiary Bharat Petro Resources Limited (BPRL) has Participating Interest (PI) in twenty blocks spread across seven countries. Apart from stakes in twelve blocks in India, BPRL also has Participating Interest in 11 blocks in Mozambique, Brazil, Indonesia, East Timor, Australia and Abu Dhabi.

(Rs. Crore)

Brief Financials – Consolidated	FY19 (Audited)	FY20 (Audited)	FY21 (Abridged)
Total operating income	3,00,634	2,87,530	2,32,416
PBILDT	17,528	10,647	23,549
PAT	8,526	3,663	17,320
Overall gearing (times)	1.11	1.71	0.90
Interest coverage (times)	9.94	4.05	13.66

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	500.00	CARE AAA (CWD)
Debentures-Non Convertible Debentures	INE029A07075	March 10, 2017	7.35%	March 10, 2022	550.00	CARE AAA (CWD)
Debentures-Non Convertible Debentures	INE029A08065	July 06, 2020	6.11%	July 06, 2025	1995.20	CARE AAA (CWD)
Debentures-Non Convertible Debentures	INE029A08057	March 11, 2019	8.02%	March 11, 2024	1000.00	CARE AAA (CWD)
Debentures-Non Convertible Debentures	INE029A08040	January 16, 2018	7.69%	January 16, 2023	750.00	CARE AAA (CWD)
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	504.80	CARE AAA (CWD)
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 to 364 days	5000.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 to 364 days	6500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA (CWD)	-	1)CARE AAA (CWD) (26-Jun-20)	1)CARE AAA (CWD) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	1)CARE AAA; Stable (03-Oct-18)
2.	Debentures-Non Convertible Debentures	LT	750.00	CARE AAA (CWD)	-	1)CARE AAA (CWD) (26-Jun-20)	1)CARE AAA (CWD) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19)	1)CARE AAA; Stable (27-Feb-19) 2)CARE AAA; Stable (03-Oct-18)

							3)CARE AAA; Stable (27-Sep-19)	
3.	Commercial Paper- Commercial Paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (29-Jul-20) 2)CARE A1+ (26-Jun-20) 3)CARE A1+ (23-Apr-20) 4)CARE A1+ (07-Apr-20)	1)CARE A1+ (23-Mar-20) 2)CARE A1+ (06-Dec-19) 3)CARE A1+ (28-Nov-19) 4)CARE A1+ (05-Nov-19) 5)CARE A1+ (27-Sep-19)	1)CARE A1+ (03-Oct-18) 2)CARE A1+ (27-Jul-18)
4.	Debentures-Non Convertible Debentures (Proposed)	LT	500.00	CARE AAA (CWD)	-	1)CARE AAA (CWD) (26-Jun-20)	1)CARE AAA (CWD) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	1)CARE AAA; Stable (27-Feb-19)
5.	Debentures-Non Convertible Debentures	LT	550.00	CARE AAA (CWD)	-	1)CARE AAA (CWD) (26-Jun-20)	1)CARE AAA (CWD) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	-
6.	Debentures-Non Convertible Debentures	LT	1995.20	CARE AAA (CWD)	-	1)CARE AAA (CWD) (26-Jun-20)	-	-
7.	Commercial Paper- Commercial Paper (Standalone)	ST	6500.00	CARE A1+	-	1)CARE A1+ (29-Jul-20) 2)CARE A1+ (26-Jun-20)	-	-
8.	Debentures-Non Convertible Debentures (Proposed)	LT	504.80	CARE AAA (CWD)	-	1)CARE AAA (CWD) (26-Jun-20)	-	-

Annexure-3: List of entities in consolidated financials as on March 31, 2021

Name of Company	Country of Incorporation	Shareholding (%)
Subsidiaries		
Numaligarh Refinery Limited (NRL) (upto March 25, 2021)	India	61.65
Bharat Gas Resources Limited (BGRL)	India	100
Bharat Petro Resources Limited (BPRL)	India	100
Joint Venture Companies (JVs)		
Bharat Oman Refineries Limited	India	63.38
Central UP Gas Limited	India	25
Maharashtra Natural Gas Limited	India	22.5
Sabarmati Gas Limited	India	49.94
Bharat Stars Services Private Limited	India	50
Matrix Bharat Pte. Ltd.	Singapore	50
Delhi Aviation Fuel Facility Pvt. Limited	India	37
Mumbai Aviation Fuel Farm Facility Private Limited	India	25
Kochi Salem Pipeline Private Limited	India	50
BPCL-KIAL Fuel Farm Private Limited	India	74
Haridwar Natural Gas Pvt. Ltd.	India	50
Goa Natural Gas Private Limited	India	50
Ratnagiri Refinery & Petrochemicals Limited	India	25
IHB Private Limited	India	25
Associates		
Indraprastha Gas Limited	India	22.5
Petronet LNG Limited	India	12.5
GSPL India Gasnet Limited	India	11
GSPL India Transco Limited	India	11
Kannur International Airport Limited	India	21.68
Petronet India Limited	India	16
FINO Paytech Limited	India	20.73

Annexure-4: Detailed explanation of covenants of the rated instruments - NA**Annexure-5: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Debentures-Non Convertible Debentures	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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