Oil India Limited

March 26, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	2,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Long Term Bank Facilities	145.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	3,174.00	CARE AAA; Stable / CARE A1+ (Triple A ; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	5,000.00	CARE A1+ (A One Plus)	Assigned
Short Term Bank Facilities	1,102.03	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**11,421.03 (Rs. Eleven Thousand Four Hundred Twenty-One Crore and Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Oil India Limited (OIL) continue to consider its majority ownership by the Government of India (GoI) and its strategic importance in supporting the country's energy security and development of hydrocarbon reserves in North-East India. The ratings draw comfort from the experienced and professional management, the company's long track record of exploration and production (E&P) operations spanning more than a century in the same hydrocarbon basins, its adequate reserves, robust infrastructure for hydrocarbon extraction, and proven technical capabilities in E&P with added presence across various segments in oil and gas sector through group entities.

The ratings also take into cognizance expected synergies post acquisition of 54.16% stake of Numaligarh Refinery limited (NRL) from Bharat Petroleum Corporation Limited (BPCL) leading to increased footprint of OIL in the North- East India.

The ratings, however, remain susceptible to risk related to E&P business, volatility associated with prices of crude oil, regulatory risk, and large capital expenditure (capex) plans.

Rating Sensitivities

Positive Factors: NA

Negative Factors:

- Sustained increase in overall gearing (net of cash) beyond 0.6x
- Sustained decline in liquidity position due to decrease in free cash & bank balance along with current investment below Rs. 1,000 crore
- Reduction in the GoI stake to less than 51%.

Brief on acquisition of Numaligarh Refinery Limited

OIL is in final stage of acquiring an additional stake of 54.16% in NRL out of BPCL's existing 61.65% stake in the refinery. The acquisition will enhance the shareholding of OIL in NRL from 26.00% to 80.16% and will cost around Rs. 8,676 crore which will be funded by term debt of Rs. 6,300 crore and internal accruals of Rs. 2,376 crore. NRL is the largest customer of OIL with around 60-65% of crude produced from North Eastern fields is sold to NRL. Besides, the products produced by NRL are transported via OIL's product pipeline from Numaligarh to Siliguri, thereby providing NRL efficient transport system in evacuating white oil products on a sustained basis, ensuring high capacity utilization of the refinery. The acquisition is expected to generate significant revenue and cost synergies, making OIL a fully integrated hydrocarbon company with an asset portfolio ranging from crude extraction through refining to production of petrochemicals.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GoI along with its strategic importance

OIL was established in 1889 as Burma Oil Company (BOC) with the first discovery of crude oil in Digboi (Assam). In 1981, it became a wholly-owned GoI enterprise and came out with IPO in 2009. As on December 31, 2020, GoI held 56.66% equity

capital in OIL while the major oil marketing companies (viz Indian Oil Corporation Ltd, Bharat Petroleum Corporation Ltd & Hindustan Petroleum Corporation Ltd) jointly held 9.87% equity capital.
OIL is the second-largest premier Indian national oil company engaged in the business of exploration, development, and production of crude oil and natural gas, transportation of crude oil, and production of LPG. It contributed around 9.73% to India's total crude oil production and around 8.56% to India's natural gas production during FY20 and built adequate domestic reserves (2P) of 74.69 million metric tonnes (MMT) and 60.07 billion cubic metres (BCM) of crude oil and natural gas with exploration rights over 60 blocks, primarily in the onshore regions of Assam, Arunachal Pradesh and Rajasthan region and overseas reserves (2P) of 34.44 million metric tonnes (MMT) and 22.37 billion cubic metres (BCM) of crude oil and natural gas respectively as on March 31, 2020 respectively. It continues to be of strategic importance in the Indian energy sector. As the largest player in North east region it plays a crucial role in the implementation of GoI policies in the oil & gas sector, with added presence across various segments in oil and gas sector.

Experienced management
OIL is managed by a team having substantial experience in oil and gas industry. Mr. Sushil Chandra Mishra is the Chairman and Managing Director of OIL with an experience of over 36 years in diverse fields of strategic planning, E&P projects, corporate affairs and business development. Mr. Harish Madhav, Director (Finance) is a member of the Institute of Chartered Accountants of India (ICAI) and has over 31 years of rich and varied experience in diverse fields of financial & treasury management, corporate accounts and audit. Dr. P. Chandrasekaran, Director (Exploration & Development), is a post-graduate in Geology and has done Ph.D from IIT Roorkee and has an experience of over 35 years in various facets of petroleum exploration. Mr. P K Goswami, Director (Operations) have experience of over 32 years in E&P industry in India and abroad. Mr. Biswajit Roy, Director (HR& BD) has over 37 years of experience in diverse functions including marketing, operations, business development and HR. Furthermore, other senior management of the company also has vast experience in the oil and gas industry.

Robust infrastructure and proven technical capabilities
Oil & gas industry is a capital expenditure intensive industry, and thus requires large funds as well as time to develop a sound infrastructure. With its long track record of operations, it has developed advanced in-house technical capabilities in exploration-related services including seismic, drilling and oilfield services, recovery and reservoir management, etc. Furthermore, the company has accumulated a large collection of raw and proprietary geological data relating to offshore and onshore regions in India, and thus providing it with a competitive edge over its competitors. The company has been effectively replenishing more reserves by maintaining the reserve replacement ratio (RRR) consistently above 1 and of 1.15 in FY20.

Presence across various segments in oil and gas sector
From an E&P player, OIL has gradually expanded its operations in refining, petrochemicals and renewable power, thereby making a presence across the hydrocarbon value chain. In downstream operations (refining and marketing), it has 26% stake in NRL (will increase to 80% after acquisition of BPCL's stake in NRL), which operates a 3MMTPA refinery in Numaligarh (Assam), 5% stake in Indian Oil Corporation Ltd and has 10% stake in Brahmputra Cracker and Polymer Ltd (BCPL), which is establishing a gas-cracker project at Dibrugarh (Assam). Furthermore, OIL operates transportation pipelines of 1,157 km for crude oil and 660 km for multi-product, along with ownership of 23% equity in 192km DNP Ltd which has established natural gas pipeline from Duliajan to Numaligarh (Assam). OIL also has renewable energy installed capacity of 188 MW (Wind energy 174 MW & Solar energy 14 MW).

Strong financial profile
OIL has reported total operating income (TOI) of Rs. 13,554 crore in FY20 as against Rs. 15,056 crore in FY19, registering a decline of 10% primarily on account of fall in international crude oil prices leading to a decline in crude oil realization by -11.31% and quantity sold by -5.26%. Its PBILDT margin has also declined by 250 bps to 43.89% in FY20 (FY19: 46.39%) mainly on account of lower crude oil realization. The debt metrics stood comfortable with overall gearing at 0.38x as on March 31, 2020 (PY: 0.45x) along with interest coverage ratio of 11.93x in FY20 (PY: 14.56x).
9MFY21: The company has posted TOI of Rs. 6,652 crore in 9MFY21 as against Rs. 10,065 crore in 9MFY20. The decrease is due to a decline in crude price realization by 39% and natural gas price realization by 38% along with the decline in crude oil production by 5.4%. The realization has improved in Q3FY21 from Q2FY21 due to improvement in crude oil prices and slow recovery in economy subsequent to removal of lockdown imposed to control the spread of COVID 19. The PBILDT margin also declined to 22% in 9MFY21 (42% in 9MFY20) and the company posted a profit at PAT level of Rs. 894.03 crore. The overall gearing stood at 0.37x as on December 31, 2020 which is expected to increase to 0.60x after the completion of debt funded acquisition of NRL.

Key Rating Weaknesses

Risk related to E& P business and crude oil

The E&P business is a highly capital-intensive business with a long gestation period. The exploration activity involves high uncertainty concerning estimation of reserves as it is a function of the quality of the available data and the engineering and geological interpretation. OIL has also been investing a large amount on capital expenditure in line with its exploratory efforts in terms of survey and exploratory wells. As most of the major producing fields enter into natural decline phase, the company has deployed various Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) programmes to maintain a healthy reserve replacement ratio (RRR).

Furthermore, the company is also exposed to crude oil price risk since majority of OIL's revenue is derived from sale of crude oil and related products. Therefore, any decrease in the price of the crude oil may hamper the profitability of the company. Prices of crude oil depend on various factors including policies by major producers of crude oil, global as well as regional demand variations, geopolitical situations and market sentiment. The crude price (Brent) plummeted sharply by 16% through January 2019 – December 2020, touching a low of USD 19/bbl in April 2020, triggered by a supply glut in the market led by Saudi Arabia and Russia which was further aggravated by a worldwide slump in demand for petroleum products due to COVID-19 pandemic. However, crude prices have recovered to the level of around $60/bbl by February 2021 supported by restrained U.S. oil production and deployment of vaccination drives across economies.

Aggressive capex plans

During the last couple of years, the average capex of OIL per annum has been in the range of Rs 3,800 to Rs 4,300 crore with about 24-28% expenditure on development drilling, 22-23% expenditure on exploration drilling, 23-27% expenditure on capital equipment, 10-14% on overseas project and balance 9-20% on surveys, R&D. The same trend is expected to continue in the ensuing years. The company has completed capex of Rs. 3410 crore in FY21 out of planned capex of Rs. 3920 crore. Further for the overseas project in Mozambique, OIL has invested total of $1,275 million dollars through foreign bonds and External commercial borrowing (ECB) till March 01, 2021. Also, OIL has planned to fund the acquisition of NRL with short and medium tenure term debt of Rs. 6300 crore which will increase its leverage in medium term.

Regulatory risk

OIL's profitability and cash accruals are susceptible to GoI's policies with respect to sharing of under-recoveries arising from discount allowed to oil refineries, natural gas pricing (Administered Price Mechanism), subsidy sharing, and dividend payments. During elevated prices of crude, the GoI may choose to pass on the fiscal burden via sharing of profits of PSUs through higher fiscal levies, higher dividend declaration or providing discounts to OMCs thus affecting profitability of OIL. Therefore, any adverse policy decision by GOI remains a key risk.

Liquidity: Strong

OIL's liquidity remains strong as it derives financial flexibility from its GoI parentage and comfortable leverage structure which ensures easy access to funds at attractive rates. Further, the working capital utilization also remained at nil for the 12 months ended Dec 31, 2020. The operating cycle of the company increased to 66 days from 60 days in FY19 mainly on account of increase in inventory days to 59 days (PY: 51 days) and creditor days to 29 days (PY: 27 days). As on March 02, 2021, Oil has free cash and bank balance of Rs. 3800 crore which will be utilized towards acquisition of NRL therefore its cash and bank balance will be moderated in near term.

Analytical approach: Standalone with notching based on linkages with the Government of India.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Factoring government linkages in rating
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis-Non-Financial Sector
Rating Methodology for Service Sector Companies

About the Company

OIL was established as Burma Oil Company (BOC), with first discovery of crude oil in Digboi (Assam) in 1889. 'Oil India Private Ltd' was incorporated on February 18, 1959 and later became 50:50 joint venture (JV) among BOC and GoI. In 1981, it became a wholly-owned GoI enterprise and came out with an IPO in 2009. OIL, a Navratna PSU, is engaged in exploration, development and production of crude oil and natural gas, transportation of crude oil and production of LPG. OIL also provides various E&P

related services and holds 26% equity in Numaligarh Refinery Ltd (NRL) which is operating a 3 million metric tonnes per annum (MMTPA) refinery at Numaligarh (Assam).

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	15,056	13,554
PBILDT	6,983	5,949
PAT	2,590	2,584
Overall gearing (times)	0.45	0.38
Interest coverage (times)	14.56	11.93

A: Audited

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/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	145.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	400.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	702.03	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	3174.00	CARE AAA; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	March 2024	2000.00	CARE AAA; Stable
Fund-based - ST-Term loan	-	-	March 2021	5000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	145.00	CARE AAA; Stable	1)CARE AAA; Stable (11-Feb-21)	1)CARE AAA; Stable (07-Feb-20)	1)CARE AAA; Stable (05-Oct-18) 2)CARE AAA; Stable (09-Apr-18)	1)CARE AAA; Stable (05-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	400.00	CARE A1+	1)CARE A1+ (11-Feb-21)	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (05-Oct-18) 2)CARE A1+ (09-Apr-18)	1)CARE A1+ (05-Oct-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	702.03	CARE A1+	1)CARE A1+ (11-Feb-21)	1)CARE A1+ (07-Feb-20)	1)CARE A1+ (05-Oct-18) 2)CARE A1+ (09-Apr-18)	1)CARE A1+ (05-Oct-17)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	3174.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (11-Feb-21)	1)CARE AAA; Stable / CARE A1+ (07-Feb-20)	1)CARE AAA; Stable / CARE A1+ (05-Oct-18) 2)CARE AAA; Stable / CARE A1+ (09-Apr-18)	-
5.	Fund-based - LT-Term Loan	LT	2000.00	CARE AAA; Stable	-	-	-	-
6.	Fund-based - ST-Term loan	ST	5000.00	CARE A1+	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-BG/LC	Simple

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

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