Bharat Petroleum Corporation Limited

April 07, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	10,000 (enhanced from 7,000)	**CARE A1+ [A One Plus]**	**Reaffirmed**

Details of instruments in Annexure-1

Other Ratings

Instruments	Amount (Rs. crore)	Rating[2]
Non-Convertible Debenture issue	2,800.00 **(Rs. Two Thousand and Eight Hundred Crore only)**	**CARE AAA (Triple A) (Credit watch with developing implications)**

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the Commercial Paper issue of Bharat Petroleum Corporation Limited (BPCL) majorly derive strength from parentage of, and continuation of its strategic importance to and support from GOI, its strong operational profile driven by dominant market position supported by established marketing and distribution network & sizable refining capacity (15% of India's capacity) as well as GOI's measures for reducing oil under-recoveries of Oil Marketing Companies (OMCs).

The aforementioned ratings strengths are however 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, and increasing competition among the PSU peers as well as from private players.

The long-term ratings of BPCL have already been put 'under Credit Watch with Developing Implications' on account of announcement made by Cabinet Committee on Economic Affairs (CCEA) in its meeting dated November 20, 2019, where Government of India (GoI) has decided to sell its entire stake (53.29%) along with transfer of management control to a strategic player. This disinvestment will exclude Numaligarh Refinery Limited (NRL) where BPCL holds 61.65%, which will be sold to a Central Public Sector Enterprise (CPSE) operating in Oil & Gas sector.

With the announcement related to GoI's stake sale in BPCL, the credit profile of the strategic buyer will be a crucial factor from the credit perspective.

CARE is continuously monitoring the developments in this regard and will take appropriate rating action depending upon the same.

Rating Sensitivities

Negative Factors

- Any significant increase in absorption of sales-related under recoveries on regulated products.
- Decrease in PBDIT margin on a sustained basis below 4%, on account of lower GRMs.

Detailed description of the key rating drivers

Key Rating Strengths

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

BPCL is GoI owned (53.29% equity stake as on December 31, 2019) and is of strategic importance to GoI. Oil Marketing Companies (OMCs) have dominant position in the domestic market for key petroleum products such as high speed diesel (HSD), motor spirit (MS), kerosene, etc. GoI consistently supports OMCs by absorbing a good portion of the sales-related under-recoveries on regulated products. With the announcement related to GoI's sale stake in BPCL, the credit profile of the new promoter will be a key monitorable.

Integrated oil refining and marketing company

With increasing presence in upstream and downstream segments, BPCL is present across Oil & Gas value chain. It is India's second-largest OMC with domestic sales volume of over 43.7 MMT in FY19 (vis-à-vis 41.21 MMT in FY18) and 32.57 MMT in 9MFY20 and India's third-largest refining company with a total refining capacity of 34.40 MMT (on consolidated basis), representing around 15% of India's total refining capacity as on March 31, 2019. BPCL, through its subsidiary Bharat Petro Resources Limited (BPRL), has presence in upstream exploration and production business. With 14,802 retail outlets (as on

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

March 31, 2019), BPCL has third largest nationwide marketing set up in the country for the sale of petroleum products. In LPG, BPCL has market share of 26.55% as on March 31, 2019 with a distributor network of 5,907 outlets across the country and 7.83 crore active domestic consumers, as on March 31, 2019.

Strong operational profile driven by dominant market position

BPCL (along with its subsidiaries/JV) has four major refineries located at Mumbai, Kochi, Numaligarh and Bina. Mumbai refinery has a capacity of 12 mmtpa and Kochi has a current capacity of 15.5 mmtpa. BPCL's subsidiary at Numaligarh, Assam (61.65% held by BPCL) has a capacity of 3 mmtpa and Bharat Oman Refineries Limited (BORL, a JV between BPCL and Oman Oil Company has a 7.8 mmtpa refinery at Bina in Madhya Pradesh, making it a total consolidated capacity of 38.3 mmtpa and standalone capacity of 27.5 mmtpa.

The company posted lower GRMs in FY19 (v/s FY18) as well as in 9MFY20 due to weakness in crack spreads. Usually an Oil refining company has two kind of cracks i.e. refinery cracks and marketing cracks. Refinery cracks across industry are week. With sharp decline in crude prices and minimal reduction in prices on retail front, the company expects higher margins on marketing side as BPCL has better marketing and distribution network. The refineries in Numaligarh, Assam and BORL continue to have higher GRMs which have been higher than that of other public sector refiners. The capacity utilization for the refineries of the company is consistently high, indicating strong operating efficiency. The refineries (Mumbai and Kochi) are located near the coast, which provides an advantage to the company in saving transportation costs. With the modernization of refineries and capacity expansion of Kochi refinery and Bina refinery, the GRMs are expected to improve going forward.

Strong credit metrics albeit slightly deteriorated in FY19

On a consolidated basis, overall gearing of the company deteriorated to 1.11x as on March 31, 2019 compared to 0.98x as on March 31, 2018, on account of debt funded capital expenditure. Total consolidated debt stands at Rs.44839 crore as on March 31, 2019 out of which Rs.29,099 crore is on standalone books. Total debt/ GCA deteriorated to 3.37x in FY19 from 2.67x in FY18, mainly on account of decline in gross cash accruals by ~6% in FY19 (on lower GRMs) coupled with increase in debt. Interest coverage remains comfortable although it declined to 9.93x in FY18 from 14.97x in FY18.

Key Rating Weaknesses

Sizeable capital expenditure

BPCL spent around Rs.10,992.80 crore (including Capex incurred through 100% subsidiary and investments in JVs) in FY19 for various capital expenditure projects towards expansion of Integrated Refinery Expansion Project (IREP), procurement of LPG cylinders, land for future projects and in upstream (exploration and production) through its wholly owned subsidiary Bharat Petro Resources Limited (BPRL) and Bharat Gas Resources Limited. The capex estimate of BPCL during FY20 is around Rs.7950 crore and for FY21 it will be around Rs.12,488 crore. Hence, timely execution of projects within the estimated cost parameters remains the key monitorable. This capital expenditure would be brownfield expansion of existing refineries, pipeline, exploration and marketing. The company has already made itself ready to comply with BS-VI norms.

Rate rationalization and extent of under-recovery compensation from GoI

On account of the deregulation of petrol prices in June 2010 and diesel prices in September 2014, under recoveries are 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 GoI’s timely support for under-recoveries. GoI has paid the amount for under-recoveries to BPCL due for FY19 in Q1FY20. Currently, GoI has various schemes like DBTL (Direct Benefit Transfer)/ Pahal (Pratyaksha Hastaantarit Laabh) of LPG, SKO which helps in mitigating under-recoveries to a large extent. Any intervention from GoI and sharp upwards change in crude prices remain key monitorables.

Increasing competition in the de-regulated segment

The company is facing stiff competition from its PSU peers and private players, which are expanding and/ or reopening their existing facilities post de-regulation of Motor spirit (MS) and High Speed Diesel (HSD). The company remains confident of its existing pan India distribution network, to maintain market share.

Strong liquidity and financial flexibility

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 company has sufficient credit lines from various banks which are currently unutilized.

Impact of sharp decline in crude prices and COVID-19:

With sharp decline in crude prices since start of January, BPCL is expected to incur inventory loss in current quarter. However, retail prices not moving in tandem with crude prices, hike in excise duty by GoI and better inventory management will help in compensating the inventory loss.

With imposition of lockdown across country due to outbreak of COVID-19, BPCL is expected to report lesser Throughput in month of March as well as in April. Similarly sales from petrol, diesel, aviation fuel etc. are also expected to decline. However, sale from domestic LPG is expected to increase due to higher demand.

Analytical approach: For arriving at the ratings, CARE has considered consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries, and joint ventures (JVs).

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios - Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company
Bharat Petroleum Corporation Limited (BPCL), a GOI undertaking (53.29% holding) & 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 43.70 MMT (million metric tonne) in FY19 and India's second-largest refining company with a total refining capacity of 38.3 MMT (27.50 Standalone capacity + 3MT Numaligarh capacity + 7.8 MT Bharat Oman Refinery) representing around 15% of India's total refining capacity as on March 31, 2019. With 14,802 retail outlets (as on March 31, 2019), BPCL has third 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 six Blocks of which 13 are in India and 13 overseas along with equity stake in two Russian entities holding the license to four producing blocks in Russia. Seven of the thirteen blocks in India were acquired under different rounds of New Exploration Licensing Policy (NELP), five blocks were awarded under Discovered Small Fields Bid Round 2016 and 1 block was awarded during the year 2018-19 under the Open Acreage Licensing Policy Bid Round I. Out of thirteen overseas blocks, six are in Brazil, two in United Arab Emirates and one each in Mozambique, Indonesia, Australia, Israel and Timor Leste. The blocks of BPRL are in various stages of exploration, appraisal, pre-development and production phase and the total area of all these blocks is about 31,487 sq km, of which approximately 62% is offshore acreage.

Brief Financials – Consolidated (Rs. Cr)	FY18 (A)	FY19 (A)
Total operating income	238187	300627
PBILDT	17755	17522
PAT	9792	8528
Overall gearing (times)	0.98	1.10
Interest coverage (times)	14.97	9.93

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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7-364 days	10000.00	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.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA (Under Credit watch with Developing Implications)	-	1)CARE AAA (Under Credit watch with Developing Implications) (06-Dec-19)	1)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (01-Nov-17) 2)CARE AAA; Stable (27-Sep-17)

						2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)		
2.	Debentures-Non Convertible Debentures	LT	750.00	CARE AAA (Under Credit watch with Developing Implications)	-	1)CARE AAA (Under Credit watch with Developing Implications) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	1)CARE AAA; Stable (27-Feb-19) 2)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (01-Nov-17) 2)CARE AAA; Stable (27-Sep-17)
3.	Commercial Paper	ST	10000.00	CARE A1+	-	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	LT	500.00	CARE AAA (Under Credit watch with Developing Implications)	-	1)CARE AAA (Under Credit watch with Developing Implications) (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 (Under Credit watch with Developing Implications)	-	1)CARE AAA (Under Credit watch with Developing Implications) (06-Dec-19) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument – NA

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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