Bharat Petroleum Corporation Limited

June 26, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	550	**CARE AAA (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 (Proposed)	500		
Non-Convertible Debentures (Proposed)	2,500	**CARE AAA (Triple A) (Under credit watch with developing implications)**	**Assigned and placed on credit watch with developing implications**
Total	**5,300 (Rs. Five thousand Three hundred crore only)**		
Commercial Paper	13,500 **(Rs. Thirteen 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 derive strength from parentage of, and continuation of its strategic importance to and support from Government of India (GOI) till the divestment of GoI stake, BPCL's strong operational profile driven by dominant market position supported by established marketing and distribution network and sizable refining capacity (around 15% of India's refining capacity) as well as GOI's measures for reducing oil under-recoveries of Oil Marketing Companies (OMCs).

The aforementioned rating strengths are however tempered by moderation in scale of operations which is further expected to remain moderate in FY21 owing to impact from outbreak of COVID-19, vulnerability of profits to volatility and moderation in crack spreads; weakness in refining margins, leveraged capital structure as well as moderate debt credit metrics. 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.

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

Rating Sensitivities

Negative Factors

- Moderate/weak credit profile of new promoter, thereby resulting in lower support than currently from GoI
- Significant increase in absorption of sales-related under recoveries
- Deterioration in overall gearing beyond 2.0x

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, 2020) 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

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

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, now with the announcement of stake sale by GoI, 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 43.36 MMT in FY20 and is India's third-largest refining company with a total refining capacity of 38.30 MMT (on consolidated basis), representing around 15% of India's total refining capacity as on March 31, 2020. BPCL, through its subsidiary Bharat Petro Resources Limited (BPRL), has presence in upstream exploration and production business. With 16,250 retail outlets (as on March 31, 2020), BPCL has third 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 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 has a capacity of 3 mmtpa and Bharat Oman Refineries Limited has 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 GRMs have been lower in FY20 owing to weaker product cracks and also sharp decline in crude prices in Q4FY20. The Numaligarh and Bina refineries continue to report relatively higher GRMs. 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.
The scale of operations slightly moderated in FY20 mainly due to sharp decline in crude prices and outbreak of COVID-19 which led to imposition of lockdown across the country to contain its spread in Q4FY20. Due to decline in crude prices, the company had incurred inventory loss of about Rs.4,902 crore during the quarter. This has impacted the profitability margins and cash accruals. BPCL, on a consolidated basis, reported Total Operating Income (TOI) of Rs.2,86,501 crore as against Rs.3,00,627 crore in FY19, PBILDT and PAT margin deteriorated from 5.83% in FY19 to 3.59% in FY20 and 2.84% in FY19 to 1.28% in FY20 respectively.
Going forward, owing to lockdown in April and May 2020, demand for petroleum products declined sharply, however with easing of lockdown restrictions on movement of people and opening up of economy, demand has started to improve. Hence, Q1FY21 is expected to be muted and overall revenue for FY21 is expected to decline.

Key Rating Weaknesses
Leveraged capital structure and moderate debt credit metrics
BPCL's financial risk profile is marked by leveraged capital structure and moderate debt credit metrics. On a consolidated basis, overall gearing deteriorated as on March 31, 2020 to 1.61x as on March 31, 2020 from 1.11x as on March 31, 2019 owing to higher borrowings viz. term loans, foreign currency loans, higher working capital borrowings and finance lease (on account of Ind AS 116). Total debt to Gross Cash Accruals deteriorated from 3.37 years in FY19 to 7.97 years in FY20, on account of higher debt as well as lower generation of gross cash accruals. Interest coverage ratio also declined from 9.93x in FY19 to 3.90x in FY20, owing to increase in interest expenses due to higher borrowings and lower PBILDT.

Sizeable capital expenditure planned
BPCL intends to incur capex of around Rs.8,000 crore in FY21. The capex in FY21 would be mainly towards petrochemical units, capacity expansion for BS VI motor spirit; setting up second-generation ethanol bio refinery in Orissa; cross-country petroleum, oil, and lubricants (POL) pipeline and marketing terminals at various locations, and expansion of the retail outlet network. A part of capex would be towards investment in its subsidiaries i.e. Bharat Petro Resources Limited (BPRL) and Bharat Gas Resources Limited (BGRL) towards exploration and production activities and expansion of the city gas distribution (CGD) network.
The said capital expenditure shall be funded by debt of around Rs.4,000 crore and remaining through internal accruals/ liquidating special GoI bonds. Timely execution of projects within the estimated cost parameters remains the key monitorable.

Rate rationalization and extent of under-recovery compensation from GoI
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 GoI'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 are exposed to volatility of crude prices and crack spreads as well as foreign exchange fluctuations.

Liquidity: Strong

BPCL derives strong financial flexibility given its size and strategic importance to and demonstrated support from GOI leading to strong fund raising/refinancing ability. Furthermore, liquidity comfort is derived with cash and cash equivalents of Rs.1164.84 crore and current investments of Rs.5,208.54 crore as on March 31, 2020. In addition to it, the company has sanctioned working capital limits from various banks of around Rs.14,000 crore, which on an average are utilised minimally. The company expects to incur capex of around Rs.8,000 crore during FY21 which would be funded through debt and internal accruals/ liquidating special GoI bonds. Also, the company has debt repayments of Rs.3,672 crore which will be met through internal accruals.

Analytical approach: Consolidated. For arriving at the ratings, CARE has considered consolidated financials of BPCL owing to financial and operational linkages as well as 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: Consolidation and Factoring Linkages in Ratings
Rating Methodology – Manufacturing Companies
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Bharat Petroleum Corporation Limited (BPCL), a GoI undertaking (52.98% holding as on March 31, 2020) and 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 43.36 MMT (million metric tonne) in FY20 and India's second-largest refining company with a total refining capacity of 38.30 MMT (including 3 MMT of Numaligarh Refinery and 7.8 MMT of Bina Refinery), representing around 15.33% of India's total refining capacity. With 16,250 retail outlets as on March 31, 2020, 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 three 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. All these blocks are in various stages of exploration/appraisal and the total area of all these blocks is about 23,878 sq. km, of which approximately 76% is offshore acreage.

The Cabinet Committee on Economic Affairs (CCEA) in its meeting dated November 20, 2019 has given its nod for 'in-principle' strategic disinvestment in BPCL as part of its mega privatization drive. The Government of India (GoI) has decided to sell its entire stake along with transfer of management control to a Strategic buyer. This disinvestment will exclude Numaligarh refinery limited (NRL) where BPCL holds 61.65% and at present has refining capacity of 3 MMT.

The GoI, on May 27, 2020, extended the deadline for bidding to buy its entire 53.29% in BPCL, by July 31, 2020.

Brief Financials – Consolidated (Rs. Cr)	FY18 (Audited)	FY19 (Audited)	FY20 (Abridged)
Total operating income	2,38,187	3,00,627	2,86,501
PBILDT	17,755	17,522	11,988
PAT	9,792	8,528	3,493
Overall gearing (times)	0.98	1.10	1.61
Interest coverage (times)	14.97	9.93	3.90

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	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 (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	INE029A07075	March 2017	7.35%	March 2022	550.00	CARE AAA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	2500.00	CARE AAA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	INE029A08057	March 2019	8.02%	March 2024	1000.00	CARE AAA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	INE029A08040	January 2018	7.69%	January 2023	750.00	CARE AAA (Under Credit watch with Developing Implications)
Commercial Paper	-	-	-	7 to 364 days	7000.00	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/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) 2)CARE AAA; Stable (28-Nov-19) 3)CARE AAA; Stable (27-Sep-19)	1)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (01-Nov-17) 2)CARE AAA; Stable (27-Sep-17)
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)	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)CARE AAA; Stable (27-Sep-19)		
3.	Commercial Paper	ST	7000.00	CARE A1+	1)CARE A1+ (23-Apr-20) 2)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	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)	-	-
6.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA (Under Credit watch with Developing Implications)	-	-	-	-
7.	Commercial Paper-Commercial Paper (Standalone)	ST	6500.00	CARE A1+	CARE A1+	-	-	-

Annexure – 3: List of entities in consolidated financials as on March 31, 2020

Name of Company	Country of Incorporation	Shareholding (%)
Subsidiaries		
Numaligarh Refinery Limited (NRL)	India	61.65
Bharat Gas Resources Limited (BGRL)	India	100
Bharat Petro Resources Limited (BPRL)	India	100
Bharat Petro Resources JPDA Limited	India	100
BPRL International BV	Netherlands	100
BPRL International Singapore Pte Ltd.	Singapore	100
BPRL Ventures BV	Netherlands	100
BPRL Ventures Mozambique BV	Netherlands	100
BPRL Ventures Indonesia BV	Netherlands	100
BPRL International Ventures BV	Netherlands	100
Bharat Oman Refineries Limited (BORL)	India	63.38*
Joint Venture Companies		
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
Bharat Renewable Energy Limited	India	33.33
Matrix Bharat Pte. Ltd.	Singapore	50
Delhi Aviation Fuel Facility Pvt. Limited	India	37
IBV (Brasil) Petroleo Ltda.	Brazil	50
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
DNP Limited	India	26
Taas India Pte Ltd.	Singapore	33
Vankor India Pte Ltd.	Singapore	33
Falcon Oil & Gas BV	Netherlands	30
Ratnagiri Refinery & Petrochemicals Limited	India	25
LLC TYNGD	Russia	9.87
Urja Bharat Pte. Ltd.	Singapore	50
Assam Bio Refinery (P) Ltd.	India	50
Indradhanush Gas Grid Ltd.	India	20
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
Petroleum India International	India	18.18
Petronet India Limited	India	16
Petronet CI Limited	India	11
FINO Paytech Limited	India	20.73
Brahmaputra Cracker and Polymer Limited	India	10
Mozambique LNG 1 Pte. Ltd.	Singapore	10
JSC Vankorneft	Russia	7.89

**for purpose of accounting, BORL is considered as JV.*

Annexure-4: 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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