Bharat Petroleum Corporation Limited

September 27, 2019

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture issue	550	**CARE AAA; Stable (Triple A: Outlook; Stable)**	**Reaffirmed**
Non-Convertible Debenture issue	750	**CARE AAA; Stable (Triple A: Outlook; Stable)**	**Reaffirmed**
Non-Convertible Debenture issue	1000	**CARE AAA; Stable (Triple A: Outlook; Stable)**	**Reaffirmed**
Non-Convertible Debenture issue (Proposed)	500	**CARE AAA; Stable (Triple A: Outlook; Stable)**	**Reaffirmed**
Total	**2800 (Rs. Two Thousand Eight Hundred Crore only)**		
Commercial Paper	**3500 (Rs. Three Thousand and Five Hundred Crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the instruments of Bharat Petroleum Corporation Limited (BPCL) reflect parentage of, and continuation of its strategic importance to and support from Government of India (GOI). The ratings positively factor in 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.
Any loss of management control by, or decrease in importance to GOI or any significant debt-funded capex or any adverse regulatory development will be key rating sensitivities.

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 June 30, 2019) and is of strategic importance to GoI. 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), kerosene, etc. GoI consistently supports OMCs by absorbing a good portion of the sales-related under-recoveries on regulated products. Any loss of management control by, or decrease in importance to GOI will be key rating sensitivity.

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 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 Ltd. (BPRL), has presence in upstream exploration and production business. With 14,802 retail outlets (as on 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

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

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) due to lower crack spreads. 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. 10992.80 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 PetroResources Limited (BPRL) and Bharat Gas Resources Limited. Going forward in FY20 and FY21, BPCL on a consolidated basis has sizeable capital expenditure (in excess of Rs 9000 crore for FY20 and FY21) lined up. Hence, timely execution of projects within the estimated cost parameters remains the key monitorable. This capital expenditure would be brownfield expansion of existing refineries and increase in investments in Bharat Petro Resources Limited (BPRL) and Bharat Gas Resources Limited (BGRL).

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 unutilized bank limits (in excess of Rs 7500 crore). Furthermore, liquidity comfort is derived from cash & cash equivalents of around Rs.1,360 crore as on March 31, 2019 (vis-à-vis Rs.1,807 crore in March 31, 2018).

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 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 3, 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 licence 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 (Rs. In Crores)	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/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non Convertible Debentures INE029A07075	March 10, 2017	7.35%	March 10, 2022	550.00	CARE AAA; Stable
Non Convertible Debentures INE029A08040	January 16, 2018	7.69%	January 16, 2023	750.00	CARE AAA; Stable
Non Convertible Debentures INE029A08057	March 11, 2019	8.02%	March 11 2024	1000.00	CARE AAA; Stable
Proposed Non Convertible Debentures	-	-	-	500.00	CARE AAA; Stable
Commercial Paper INE029A14816	September 06, 2019	5.34%	September 30, 2019	2500.00	CARE A1+
Proposed Commercial Paper	-	-	-	1000.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (26-Oct-16)
2.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (03-Oct-18)	1)CARE AAA; Stable (01-Nov-17) 2)CARE AAA; Stable (27-Sep-17)	1)CARE AAA; Stable (23-Feb-17) 2)CARE AAA (26-Oct-16)
3.	Debentures-Non Convertible Debentures	LT	700.00	CARE AAA; Stable	-	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)	1)CARE AAA; Stable (23-Feb-17)
4.	Commercial Paper	ST	3500.00	CARE A1+	-	1)CARE A1+ (03-Oct-18) 2)CARE A1+ (27-Jul-18)	-	-
5.	Debentures-Non Convertible Debentures	LT	800.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Feb-19)	-	-
6.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Stable	-	-	-	-

Annexure – 3: List of entities in consolidated financials as on March 31, 2019

Name of Company	Country of Incorporation	Shareholding (%)
Subsidiaries		
Numaligarh Refinery Limited (NRL)	India	61.65
Bharat Gas Resources Limited (BGRL)	India	100
Bharat PetroResources Limited (BPRL)	India	100
Bharat PetroResources 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
Joint Venture Companies (JVCS)		
Bharat Oman Refineries Limited	India	50
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

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

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:
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