

Bharat Petroleum Corporation Limited

February 27, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Non-Convertible Debenture issue	800 (Rs. Eight hundred crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Proposed Non-Convertible Debenture issue	700 (Rs. Seven hundred crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total	1,500 (Rs. One thousand five hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the instrument 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) and 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 (53.93% equity stake as on December 31, 2018) and is of strategic importance to GOI for achieving its socio-economic goals. 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. 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 41.21 MMT in FY18 (vis-à-vis 37.68 MMT in FY17) and India's third-largest refining company with a total refining capacity of 36.50 MMT, representing around 15% of India's total refining capacity. BPCL through its subsidiary Bharat Petro Resources Ltd. (BPRL) has presence in upstream exploration and production business. With 14,651 retail outlets (as on December 31, 2018), BPCL has third largest nationwide marketing set up in the country for the sale of petroleum products. Further, it is the third largest supplier of LPG cylinders in the country, with a distributor network of 5,641 outlets across the country and 6.5 crore active domestic consumers, as on December 31, 2018.

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, which has a current capacity of 15.5 mmtpa in FY18. BPCL's subsidiary at Numaligarh, Assam (61.55% by BPCL) has a capacity of 3 mmtpa and Bharat Oman Refineries Limited (BORL), a BPCL-promoted (50% stake) company and a JV between BPCL and Oman Oil Company has a 6 mmtpa refinery at Bina in Madhya Pradesh, making it a total consolidated capacity of 36.5 mmtpa and standalone capacity of 27.5 mmtpa.

The company continues to post steady GRMs with increase in GRM to 6.85USD/bbl in FY18 vis-à-vis 5.26 USD/bbl in FY17 due to better crack spreads (higher complexity of Kochi refinery). The refinery in Numaligarh, Assam and BORL continues 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.

Improved credit metrics

On consolidated basis, the overall gearing of the company marginally improved to 0.98x in FY18 compared to 1.01x in FY17, despite ~5% increase in debt, the increase in debt is mostly for capex in the Petrochemical project at Kochi refinery,

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

upgrading existing facilities & related infrastructure, and increasing retail presence in the country. Total debt (consolidated) stands at Rs.37,659 crore as on March 31, 2018 out of which Rs.23,351 crore is on standalone books. Also, total debt/ GCA marginally improved to 2.67x in FY18 from 2.80x in FY17, mainly due to increase in gross cash accruals by ~11% in FY18.

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. Furthermore, liquidity comfort is derived from around Rs.5,000 crore investments in GOI special bonds and T-bills (Rs.5,600 crore in FY17), and cash & cash equivalents of around Rs.1,300 crore as on March 31, 2018 (vis-à-vis Rs.1,800 crore in March 31, 2017).

Key Rating Weaknesses

Sizeable capital expenditure

BPCL spent around Rs.9,000 crore (including Capex incurred through 100% subsidiary and investments in JVs) in FY18 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). As such the capex considering the net-worth of BPCL of Rs.38,524 crore as at the end of March 31, 2018 is not substantial. Investments in BPRL are expected to be more than Rs.10,000 crore by FY22; BPCL has invested around Rs.5,780 crore as on March 31, 2018 in BPRL; hence investments to be made in BPRL remains moderate. Also board of BPCL approved an investment of Rs.11,130 crore for setting up a petrochemical unit at its Kochi refinery in Kerala. Hence, timely execution of projects within the estimated cost parameters remains the key monitorable.

Rate rationalization and extent of under-recovery compensation from Gol

The deregulation of petrol prices in June 2010 and diesel prices in September 2014, under recoveries reduced to a large extent. Even the prices for LPG and Kerosene are being gradually de-regularized, 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 and DBTL (Direct Benefit Transfer of LPG), BPCL's credit risk profile remains sensitive to the extent of Gol's support. Also, Gol's decision to instruct OMCs to absorb the Rs.1 a liter on petrol and diesel price cut in October 2018, is a credit negative as this decision adversely affect BPCL's operating profitability. However, the consequent drop in crude price to around USD 60/ barrel in December 2018 from 81 USD/barrel in Sept 2018 offsets the impact of rise in crude prices, thereby profitability would improve going forward. Any intervention from Gol and sharp 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 MS and especially HSD. The company remains confident of its existing pan India distribution network, to maintain market share.

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](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology: Factoring Linkages in Rating](#)

About the Company

Bharat Petroleum Corporation Limited (BPCL), a GOI undertaking (53.93% holding as on December 31, 2018) & 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 OMC with domestic sales volume of over 41.21 MMT (million metric tonne) in FY18 and India's second-largest refining company with a total refining capacity of 36.50 MMT (including 3 MMT of Numaligarh Refinery and Bina Refinery), representing around 15% of India's total refining capacity. With 14,651 retail outlets (as on December 31, 2018), BPCL has third-largest marketing set up in the country for the sale of petroleum products. BPCL through its wholly owned subsidiary 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.

(Rs. Crore)

Brief Financials – Consolidated	FY17 (A)	FY18 (A)
Total operating income	2,03,617	2,38,234
PBILDT	16,085	17,674
PAT	9,507	9,792
Overall gearing (times)	1.10	0.98
Interest coverage (times)	23.79	14.91

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Proposed Non-Convertible Debentures	-	-	-	800.00	CARE AAA; Stable
Proposed Non-Convertible Debentures	-	-	-	700.00	CARE AAA; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (26-Oct-16)	1)CARE AAA (03-Nov-15)
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)	1)CARE AAA (03-Nov-15)
3.	Debentures-Non Convertible Debentures	LT	300.00	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)	-
4.	Debentures-Non Convertible Debentures	LT	700.00	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)	-
5.	Commercial Paper	ST	3500.00	CARE A1+	1)CARE A1+ (03-Oct-18) 2)CARE A1+ (27-Jul-18)	-	-	-
6.	Debentures-Non Convertible Debentures	LT	800.00	CARE AAA; Stable	-	-	-	-

Annexure – 3: List of entities in consolidated financials as on March 31, 2018

Name of Company	Country of Incorporation	Shareholding (%)
Subsidiaries		
Numaligarh Refinery Limited (NRL)	India	61.65
Petronet CCK Ltd. (PCCK)	India	99.99
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
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	20.75
Brahmaputra Cracker and Polymer Limited	India	10.11
Mozambique LNG 1 Pte. Ltd.	Singapore	10
LLC TYNGD	Russia	9.87
JSC Vankorneft	Russia	7.89

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