Chennai Petroleum Corporation Limited

January 31, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Non-Convertible Debenture issue	1500 (Rs. One Thousand Five Hundred crore only)	**CARE AAA; Stable (Triple A; Outlook Stable)**	**Assigned**

Details of facilities/instruments in Annexure 1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed Non-Convertible Debenture (NCD) issue of Chennai Petroleum Corporation Limited (CPCL) derives strength from its strong parent viz Indian Oil Corporation Limited (IOCL), India's largest refining and oil marketing company. CPCL is the only refinery in South India for the IOCL group with strong operational linkages with the parent in terms of procurement and off take of products. Further, CPCL enjoys significant managerial support from the parent with key top management executives from IOCL apart from presence of IOCL representatives on the board. The rating also takes note of the high level of financial flexibility of CPCL with respect to raising funds at favourable terms.
The rating, however, takes note of the exposure of CPCL to the fluctuations associated with the foreign exchange rates & crude prices and the debt-funded capital expenditure requirements.

Rating Sensitivities

- Any significant changes in shareholding or operational arrangements with IOCL.
- Continued adverse pricing scenario leading to losses or higher than expected debt funded capital expenditure plans leading to a pressure on the capital structure.

Detailed description of Key rating drivers

Key rating Strengths

Strong parentage backed by dominant position of IOCL

IOCL holds 51.89% stake, Naftiran Intertrade Company Ltd (Swiss-based subsidiary of National Iranian Oil Company) holds 15.4% and the rest is held by FIs and Public, as on September 30, 2019. IOCL enjoys a dominant position in the refining and marketing of petroleum products in the domestic market. During FY19, IOCL reported a consolidated PAT of Rs.17,274 crore on a total operating income of Rs.5,30,863 crore.

Administrative control by IOCL/GoI and benefits derived from IOCL

Being a subsidiary of IOCL, CPCL operates under the administrative control of the Ministry of Petroleum and Natural Gas and IOCL. The business goals and targets of CPCL are prescribed in consultation with IOCL by the board of directors of CPCL as per the guidelines issued by Department of Public Enterprises (DPE). These parameters are incorporated in the Memorandum of Understanding (MOU) with IOCL that is signed every year and for the FY20, it was signed on May 20, 2019.
CPCL derives operational, managerial and financial support from IOCL such as key decision making & approval, import of entire raw materials, off take of finished products, IT & systems, R&D and functional support. CPCL also derives financial support by way of payables period from IOCL and investments from IOCL in preference share of the company.

Well qualified board of directors backed by an experienced & professional management team

The board of directors of CPCL includes a mix of independent directors and representatives from the IOCL/GoI and Naftiran. The chairman is common for both CPCL & IOCL and the Managing Director of CPCL is Mr.S N Pandey. MD is appointed by IOCL. Mr.Pandey was earlier Executive Director (Operations) of IOCL and has more than 3 decades of experience in Oil industry.

Strategic importance of CPCL

CPCL is of strategic importance to IOCL as the only refinery which caters to IOCL's product requirement in South India. CPCL with a capacity of 11.50 MMTPA is the second largest refinery in South India, after Mangalore Refinery Petrochemicals Limited (15 MMTPA).

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

Flexibility with regards to raising funds at favourable terms
CPCL enjoys high financial flexibility in terms of raising funds at favourable terms as demonstrated by the issue of non-convertible debentures (of Rs. 1,000 crore in Feb'13 and repaid in Jan'19). The utilisation of working capital facilities has been low as CPCL resorts to placing commercial paper at favourable rates (around 5-6%) and line of credit extended by banks on a tender basis. CPCL also raised preference share capital of Rs.1000 crore from IOCL of which Rs.500 crore was repaid in FY19.

Key rating weakness
Moderation in the financial performance on account in drop in Gross Refining Margin (GRM)
CPLCL achieved throughput of 10.7MMT in FY19 as against 10.8 MMT in FY18. The Gross Refining Margin (GRM) of CPCL moderated from $6.42/bbl in FY18 to $3.70/bbl during FY19 and $2.69/bbl in 9MFY20 (April to December 2019) and resultantly, CPCL reported a net loss of Rs.440 crore on a total operating income of Rs.28,646 crore in 9MFY20.

Exposure to volatility in crude prices and forex rates
CPCL imports majority of its raw material requirements (crude) from West Africa or the Middle East. Crude prices are inherently volatile and the pricing of the final products are also based on trade parity basis and with the company holding inventories as well, volatility in prices of crude and final products affect the profitability margins.

Regular capital expenditure
CPCL completed the Resid Upgradation project at a cost of Rs.3,110 crore and this is expected to improve the distillate yield and enhanced the capability of CPCL in processing high sulphur heavy crudes. CPCL is currently undertaking a project to enable the company produce BS VI compatible fuels and expects to commence operations in Q4FY20. The total project cost is expected to be Rs.1858 crore. CPCL is also implementing R-LNG project to replace the existing high cost naphtha & furnace oil with R-LNG from IOCL through its pipeline from Ennore port to Manali refinery. The total cost of the project is estimated to be about Rs.421 crore.
As CPCL is operating in a very capital intensive business, it is required to upgrade the refining process from time to time and incurs capital expenditure, which is largely debt funded. This has led to increase in term borrowings which alongwith the losses reported has led to a sharp deterioration in gearing from 1.15 as on March 31, 2018 to 2.03 as on March 31, 2019.

Liquidity: Strong
Being a government entity and part of IOCL, CPCL enjoys high financial flexibility in terms of raising funds at favourable terms. CPCL also derives financial support by way of favourable payables period from IOCL. The utilization of fund based cash credit limit was negligible as it has been borrowing in the form of short term loans and commercial papers due to finer rates offered.

Analytical approach: Standalone; Factoring in linkages with IOCL.

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

About the company
CPCL was established in December 1965 as a joint venture of the Government of India (GoI with 74% equity stake), Amoco Inc. of USA (Amoco with 13% stake) and National Iranian Oil Company (NIOC with 13% stake). Over the years the shareholding has undergone changes and as on September 30, 2019, IOCL holds 51.89% stake, Naftiran Intertrade Company Ltd (Swiss-based subsidiary of NIOC) holds 15.4%, rest is held by FIs and Public.
CPCL is a standalone refiner and is engaged in crude refining at its two units located in Tamil Nadu at Manali (10.5 metric tonnes per annum (MMTPA)) and Cauvery Basin (1.0 MMTPA), with an aggregate capacity of 11.5 MMTPA. CPCL produces LPG, motor spirit, superior kerosene, aviation turbine fuel, high speed diesel, naphtha, bitumen, lube base stocks, paraffin wax, fuel oil, hexane and petrochemical feed stocks such as propylene.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	32,549	41,374
PBILDT	2,109	568
PAT	913	-213
Overall gearing (times)	1.15	2.03
Interest coverage (times)	6.55	1.35

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
Debentures-Non Convertible Debentures (Proposed)	-	-	-	1500.00	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 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.	Bonds	LT	-	-	-	1)Withdrawn (06-Feb-19)	1)CARE AAA; Stable (16-Feb-18)	1)CARE AAA; Stable (14-Mar-17)
2.	Fund-based - LT-Term Loan	LT	860.00	CARE AAA; Stable	1)CARE AAA; Stable (20-Nov-19) 2)CARE AAA; Stable (10-Apr-19)	-	-	-
3.	Debentures-Non Convertible Debentures (Proposed)	LT	1500.00	CARE AAA; Stable	-	-	-	-

***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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