Chennai Petroleum Corporation Limited

April 10, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	860	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Assigned**
Total	**860 (Rupees eight hundred and sixty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Chennai Petroleum Corporation Limited (CPCL) derives strength from strong parentage [Indian Oil Corporation Limited (IOCL)], the strong operational linkages with its parent which extends significant managerial support to CPCL, strategic importance of CPCL for IOCL in South India and particularly in Tamil Nadu, with a long-standing operational track record. The rating is further underpinned by the presence of well-qualified and diversified board of directors backed by experienced management team and demonstrated 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.

The continued ownership and operational linkage with IOCL and the ability of CPCL to increase its cash accruals & networth and completing the ongoing projects within the envisaged time without any cost or time overrun will be the key rating sensitivities.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage backed by dominant position of IOCL

IOCL enjoys a dominant position in the refining and marketing of petroleum products in the domestic market. Government of India has a majority stake in IOCL (56.98% as on March 31, 2018). IOCL and its subsidiaries own and operate 11 refineries in India and cross-country network of crude oil, product and gas pipelines. It has a refining capacity is 80.7 million metric tonnes per annum (MMTPA) and has the liquid pipeline network of 12,848 Km.

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 Petroleum ministry/IOCL reviews the performance of CPCL periodically. The business goals and targets are also set in consultation with them. The ministry has a representative on the board of directors of CPCL. CPCL derives operational, managerial and financial support from IOCL such as key decision making & approval, import of entire raw materials, offtake of finished products, IT & systems, R&D and functional support. CPCL also derives financial support by way of favourable payables period from IOCL. The entire imported crude requirements of CPCL are routed through IOCL resulting in price-advantage through the large scale of purchase.

Well-qualified & diversified 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 and IOCL and the Managing Director of CPCL is Mr.S N Pandey. The board also includes a representative from GoI, Ministry of Petroleum & Natural Gas and three executive directors. Naftiran also has two representatives on the board of CPCL. Of the 10 directors (excluding chairman), two director are independent director and, 4 are non-executive directors. The directors are backed by a professional management team at CPCL, with significant experience in the line of business.

Strategic importance of CPCL

CPCL is of strategic importance to IOCL as the only refinery in Tamil Nadu which caters to IOCL's product requirement in South India. CPCL has the second-largest refining capacity in South India, after Mangalore refinery (of 15 MMTPA).

Long-standing operational track record and integrated nature of operations

CPCL commenced operations at its Manali refinery from 1969, indicating long-standing track record of operations of more than four decades. CPCL started the operations of its second refinery at Nagapattinam in 1993. CPCL has the capability to

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

process light crude as well as lube-bearing crude. CPCL's refineries at Manali and Nagapattinam are located in prime industrial locations in close proximity to major businesses in the region.

Key rating weakness

Moderation in the financial performance during 9mFY19 on account of drop in GRM

During FY18, CPCL reported PBILDT of Rs2,109 crore on a total operating income of Rs.32,549 crore as against PBILDT of Rs.1,974 crore on a total operating income of Rs.27,723 crore during FY17. The Gross Refining Margin (GRM) of CPCL improved from $6.05/bbl during FY17 to $6.42/bbl during FY18. The improvement in GRM is attributed to the improvement in product cracks on account of favorable oil prices and demand situation. During 9MFY19, CPCL reported a net loss of Rs. 184 crore on a total operating income of Rs. 31,429 crore as against PAT of Rs. 735 crore on a total operating income of Rs. 22,799 crore during 9MFY18. The losses were on account of steep fall in crude prices/product prices during the period resulting in inventory loss and moderation in the product cracks. Resultantly, the GRM for 9MFY19 reduced to $3.92/bbl against $6.64/bbl in 9MFY18.

Exposure to volatility in crude prices and forex rates

CPCL, being a standalone refinery, imports majority of its raw material requirements (crude), resulting in an exposure to the volatility associated with the crude prices and the forex rates. CPCL relies on 60-65% heavy crude (primarily from Saudi Arabia, UAE and Iraq with a minor portion from Iran), 30-35% soft crude (from West African countries and Malaysia) and a small portion of indigenous crude. IOCL does the entire import on behalf of CPCL. CPCL in turn processes and sells the finished product to IOCL. CPCL adjusts the payments to IOCL against the receivables on bimonthly basis.

Due to the volatile crude oil prices, the PBILDT margin of CPCL has been fluctuating. During FY18, CPCL's PBILDT margin was 6.48% as against 7.12% during FY17. During 9MFY19, CPCL reported a net loss of Rs. 184 crore on a total operating income of Rs. 31,429 crore as against PAT of Rs. 735 crore on a total operating income of Rs. 22,799 crore during 9MFY18; due to steep fall in crude prices during the period resulting in inventory loss.

Ongoing projects

CPCL has successfully implemented the Resid Upgradation project during FY18. The project consists of new secondary processing units like Delayed Coker Unit, Sulphur Recovery Unit, Revamp of Once through Hydrocracker Unit and addition of associated utilities and offsite facilities. Project is expected to improve the distillate yield and enhance the capability of CPCL in processing high sulphur heavy crudes.

CPCL has also completed a new crude oil pipeline for setting up of a 42-inch diameter crude oil pipeline to replace the existing 30-inch pipeline from Chennai Port to the Manali Refinery in 9MFY19. With respect to BS VI emission project, work has been started and CPCL has proposed to commence operations from September 2019 onwards. 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. It is to be noted that R-LNG will be used as feed in Hydrogen generation units and fuel in Hydrogen reformer, Gas turbines, utility boilers & process heaters. Furthermore, CPCL has received in-principle approval to set up a 9.0 MMTPA refinery at Nagapattinam at an estimated cost of Rs. 27,460 crore, however the same is in early stages of discussion with feasibility report under preparation.

Liquidity

Being a government entity and part of IOCL, CPCL enjoys high financial flexibility in terms of raising funds at favourable terms. CPCL has cash credit limit of Rs.2,500 crore and the utilization of cash credit limit has been low. CPCL also derives financial support by way of favourable payables period from IOCL. The entire imported crude requirements of CPCL are routed through IOCL resulting in price-advantage through the large scale of purchase. This apart, IOCL also offtakes major portion of CPCL's final products thereby nullifying the offtake risk. As on March 31, 2018, trade payables to IOCL stood at Rs. 4,023 crore and receivables from IOCL stood at Rs. 1,309 crore, indicating a net payables position to IOCL of Rs. 2,714 crore.

Prospects

Due to commodity nature of products handled, the profitability is likely to be conditioned by movement in crude prices which is volatile nature as witnessed during 9mFY19. During 9mFY19, CPCL reported net loss of Rs. 184 crore on a total operating income of Rs. 31,429 crore on account of steep fall in crude oil price resulting in moderation in the GRM. Nevertheless, with long track record of operations, well established operations and strong parentage, CPCL is better placed to gain from stable GRM. CPCL is expected to be benefitted from the continued support of IOCL and its ability to raise funds at favorable terms.

Analytical approach:

Standalone; Factoring in linkages with IOCL

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology: Factoring Linkages in Ratings](#)
[CARE's methodology for manufacturing companies](#)

About the Company
Chennai Petroleum Corporation Limited (CPCL) is a 'Miniratna Central Public Sector Enterprise' and a government company under the administrative control of Ministry of Petroleum & Natural Gas. CPCL is a subsidiary of Indian Oil Corporation Limited, which holds 51.89% equity stake in CPCL. There are high level of operational synergies between the entities as IOCL imports the entire raw material requirements for CPCL and offtakes 80-90% of the finished products as well.
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). In 1985, Amoco divested its equity holding in favour of Government of India (GoI). In 2000-01, GoI sold its stake in CPCL to Indian Oil Corporation Limited (IOCL) as part of its efforts to insulate stand-alone refineries from market volatility following the dismantling of the Administered Pricing Mechanism (APM). As on March 31, 2018, IOC holds 51.89% stake, Naftiran Intertrtade 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)	FY17 (A)	FY18 (A)
Total operating income	27,723	32,549
PBILDT	1,974	2,109
PAT	1,030	913
Overall gearing (times)	1.66	1.15
Interest coverage (times)	7.21	6.55

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

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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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
Fund-based - LT-Term Loan	-	-	December 2023	860.00	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	-	-	-	-

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