# Chennai Petroleum Corporation Limited

November 20, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 860 | CARE AAA; Stable (Triple A; Outlook: Stable) | Reaffirmed |
| **Total** | **860 (Rupees Eight Hundred and Sixty Crore only)** | | |

*Details of 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 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 reset 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 Director (Optimisation) 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](http://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 further to $2.03/bbl in H1FY20 and resultantly, CPCL reported a net loss of Rs. 446 crore on a total operating income of Rs. 19,386 crore in H1FY20.

***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 Facility**

| Name of the Facility | 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 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 (10-Apr-19) | - | - | - |

**Annexure-3: Detailed explanation of covenants of the rated instruments - 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.*

## Contact us

**Media Contact**
Name: Mradul Mishra
Tel: Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

**Analyst Contact**
Name: Mr P. Sandeep
Tel: 044-2850 1000
Email ID: sandeep.prem@careratings.com

**Relationship Contact**
Name: Mr. V. Pradeep Kumar
Contact no.: 2850 1001
Email ID: pradeep.kumar@careratings.com

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