Chennai Petroleum Corporation Limited
December 07, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	360 (Reduced from 860)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**360 (Rs. Three hundred sixty crore only)**		
Non-Convertible Debentures	1,145 (Reduced from 1,500)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**1,145 (Rs. One thousand one hundred forty-five crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and non-convertible debentures (NCD) of Chennai Petroleum Corporation Limited (CPCL) derives strength from its robust operational, managerial and financial support from the parent, viz., Indian Oil Corporation Limited (IOCL), India's largest refining and oil marketing company.

CPCL, being the only refinery in south India for the IOCL group, enjoys operational synergies with respect to procurement of crude and bulk product off-take by the parent company. Furthermore, 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 enjoyed by CPCL with respect to raising funds from banks and capital markets at favorable terms, by virtue of being a subsidiary of IOCL.

The rating, however, takes note of the weakened operating performance of CPCL, leveraged capital structure, exposure of CPCL's profitability margins 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 the 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 FY20 (refers to the period April 1 to March 31), IOCL reported a total operating income of Rs.4,88,519 crore with PBILDT margin of 4.29%.

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).

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. The main products of CPCL are 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. The refineries of CPCL are capable of processing both soft crude and hard crude. CPCL enjoys 23% of the installed refining capacities in south India

Flexibility with regards to raising funds at favourable terms

Being a government entity and part of IOCL, CPCL enjoys high financial flexibility in terms of raising funds at favourable terms as demonstrated by the issue of non-convertible debentures (of Rs. 1,145 crore in February 2020 and Rs. 810 crore in July 2020). The utilisation of working capital facilities has been low as CPCL resorts to placing commercial paper at favourable rates (around 4-4.5%) and line of credit extended by banks on a tender basis. CPCL also raised preference share capital of Rs.1,000 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)

CPCL achieved throughput of 10.16 MMT in FY20 as against 10.70 MMT in FY19. Due to the country wide lockdown, the throughput reduced to 1.32 MMT in Q1FY21 as against 2.62 MMT in Q1FY20. With easing of restrictions post June 2020, the throughput has improved to 2.05 MMT in Q2FY21 as against 2.5 MMT in Q2FY20. The Gross Refining Margin (GRM) of CPCL moderated from US $3.70/bbl in FY19 to -$1.18/bbl during FY20. This is attributed to the moderation in product cracks coupled with sharp decline in crude prices during the year. In H1FY21, CPCL's GRM increased significantly to 9.70 with recovering crude prices in the current year.

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.

Leveraged capital structure

In FY20, CPCL posted a net loss of Rs.2,078 crore on account of the steep decline in the prices of crude in March 2020, resulting in inventory loss of Rs. 1456 crore. With the losses eroding the net worth and debt-funded capex, the capital structure is highly leveraged with overall gearing deteriorating to 7.43 as on March 31, 2020, as against 2.03 as on March 31, 2019. The leverage has improved marginally to 5.02 as on 30, September 2020 with profit accretion to net worth

Regular capital expenditure

CPCL completed the Resid Upgradation project at a cost of Rs.3,300 crore and this is expected to improve the distillate yield and enhanced the capability of CPCL in processing high sulphur heavy crudes.

CPCL has completed the BS VI revamp project in November 2019 and is currently undertaking a project to set up a new FCC gasoline desulphurization unit of 0.6 MMTPA capacity, which is expected to commence operations in Q3FY21.. 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.

CPCL proposes to set up a state-of-the-art 9 MMTPA Capacity refinery at CBR with secondary processing facilities in place of the existing facilities at a total project cost of Rs.28,000 crore, under a JV with IOCL wherein 50% will be jointly held by IOCL and CPCL and strategic investors are proposed for the remaining 50%. CPCL's investment for the project is expected to be around Rs. 2,500 crore over a period of 4 years.

Prospects

Recent increases in cases of COVID-19 in some countries have led to some renewed government-imposed restrictions, albeit to a much lesser extent than in March and April 2020, which could also be contributing to some downward pressure on crude oil prices. Given the nature of the business, CPCL would remain exposed to the movement in the commodity price cycles and the volatility in the crude prices. However, the improvement in yields and GRMs on account of the quality improvements with the RESID upgradation and RLNG conversions is expected to improve operating margins for CPCL at a sustained level.

Given the high dependence on the parent IOCL for procurement, off-take and financial support, the prospects of IOCL largely drives the prospects for CPCL. Continued operational and financial support from IOCL continue to be a key rating sensitivity

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
CARE's Methodology for manufacturing companies
Financial ratios - Non-Financial Sector
Liquidity analysis - Non-Financial sector
Rating Methodology – Notching by factoring linkages with the Government

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). 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 September 30, 2020, 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. Consequent to the implementation of BS- IV specifications on a pan India basis w.e.f April 01, 2017 and in the absence of secondary treatment facilities, the BS – III grade of diesel production from the refinery at Cauvery Basin have not be marketable in the local market and the operations of the refinery at Nagapattinam have been stopped from April 01, 2019.
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)	FY19 (A)	FY20 (A)
Total operating income	41,374	37,138
PBILDT	568	-2,124
PAT	-213	-2,078
Overall gearing (times)	2.03	7.43
Interest coverage (times)	1.35	NM

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument/ facility: Not Applicable
Complexity level of various instruments rated for this company: Annexure 4

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	-	-	Dec 2021	360.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	28-02-2020	6.43%	Feb 28, 2023	1145.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds	LT	-	-	-	-	1)Withdrawn (06-Feb-19)	1)CARE AAA; Stable (16-Feb-18)

2.	Fund-based - LT-Term Loan	LT	360.00	CARE AAA; Stable	-	1)CARE AAA; Stable (20-Nov-19) 2)CARE AAA; Stable (10-Apr-19)	-	-
3.	Debentures-Non Convertible Debentures	LT	1145.00	CARE AAA; Stable	-	1)CARE AAA; Stable (31-Jan-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Term Loan	Simple

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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