Oil India Limited
October 05, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	200.00	**CARE AAA; Stable (Triple A; Outlook Stable)**	Reaffirmed
Short-term Bank Facilities	2,402.03	**CARE A1+ (A one plus)**	
Total	**2,602.03 (Rupees Two Thousand Six Hundred Two crore and Three lakh only)**		

Rating Rationale

The ratings assigned to the bank facilities of Oil India Limited (OIL) continue to derive strength from the majority ownership of OIL by Government of India (GoI) and its strategic importance to GoI as well as the experienced and professional management along with long track record of operations. The ratings also consider the robust infrastructure and proven technical capabilities, presence across the hydrocarbon value chain and strong financial risk profile marked by high profitability and strong liquidity.

The ratings, however, remain exposed to regulatory risk and inherent risks in the E&P business.

Going forward, consistent increase in output as well as effective replacement of extinguishing reserves, large capital expenditure or acquisition and its corresponding funding would be the key rating sensitivities.

Detailed Description of Key drivers

Majority ownership by GoI

OIL was established in 1889 as Burma Oil Company (BOC) with first discovery of crude oil in Digboi (Assam). In 1981, it became a wholly-owned GoI enterprise and came out with IPO in 2009. As on Jun 30, 2017, GoI held 66.13% equity capital in OIL while the major oil marketing companies (viz Indian Oil Corporation Ltd, Bharat Petroleum Corporation Ltd & Hindustan Petroleum Corporation Ltd) jointly held 9.43% equity capital. OIL continues to be of strategic importance for GoI, being the 2nd largest PSU E&P Company of India, and has a crucial role in implementation of policies of GoI in the oil & gas sector of the country. OIL's importance to GoI is further strengthened on account of large dividend and taxes paid by it.

Experienced management

OIL's top management has substantial experience in the oil and gas industry. Mr Utpal Bora, who is acting CMD of OIL, has experience of over 33 years in the E&P Sector. He served in various capacities at ONGC Ltd. including ONGC Videsh Ltd. Ms Rupshikha Saikia Borah, Director (Finance) is a Chartered Accountant and a post graduate in Commerce from Delhi School of Economics. Mr P. Chandrasekaran, Director (Exploration & Development), is Post-Graduate in Geology from Madras Presidency College and a Ph.D from IIT- Roorkee on the subject "Petroleum Prospect and risk evaluation". Mr Biswajit Roy Director (HR & Business Development) is a graduate in Chemical Engineering from University of Roorkee and completed National Management Programme (NMP) from Management Development Institute (MDI), Gurgaon. Mr Pramod Kumar Sharma, Director (Operations), is a Post Graduate in Geophysics. Further, the senior management of the company has vast experience in the oil and gas industry.

Reserves sufficient to provide sustainability of revenue

OIL had crude oil and natural gas domestic reserves (2P) of 78.85 million metric tonnes (MMT) and 125.33 billion cubic metres (BCM) respectively as on March 31, 2017 with exploration rights over 37 blocks in India, out of which it has Participating Interest in 9 NELP blocks (operator: 6; non-operator: 3), Petroleum Mining Lease (PML) for 22 blocks, Petroleum Exploration License (PEL) for 3 blocks. Furthermore, the company has been effectively replenishing more reserves by maintaining the Reserve Replacement Ratio (RRR) of more than one.

Apart from domestic reserves, OIL has overseas portfolio of 15 blocks/assets spread over US, Russia, Venezuela, Mozambique, Gabon, Libya, Yemen, Nigeria, Bangladesh and Myanmar. Also, OIL has PI in a multi-product pipeline in Sudan.

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

The reserves provide the company a long-term source of hydrocarbons for crude oil and natural gas production.

Proven technical capabilities yielding low exploration costs

Oil & gas industry is a capital expenditure intensive industry, and thus requires large funds as well as time to develop a sound infrastructure. With its long track record of operations, it has developed advanced in-house technical capabilities in exploration-related services including seismic, drilling and oilfield services, recovery and reservoir management, etc. Furthermore, the company has accumulated a large collection of raw and proprietary geological data relating to offshore and onshore regions in India, and thus providing it with competitive edge over its competitors.

Strong financial risk profile backed by comfortable capital structure and strong liquidity position

Crude Oil is the highest contributor to the company's operating income (FY17: 76.26%; PY: 70%), followed by natural gas (FY17: 18%; PY: 22%). Though there has been variation in operating income, attributable to movement in global crude prices, the company has been able to maintain healthy operating margins backed by its robust infrastructure and exploration technology.

Owing to fall in global crude prices along with decline in production of crude oil, the operating income stood flat at Rs.9510 cr (PY: Rs. 9,765 cr), despite growth in crude oil sales (FY17: Rs.7253 cr; PY: Rs.6795 cr).

PBILDT margin declined to 32.65% in FY17 (PY: 36.75%) on account of lower cess (with lower output price) and higher dividend income from equity instruments. PAT margin dipped to 14% (PY: 20.92%) owing to higher depreciation and payment of royalty on crude oil for the period from February 1, 2014 to March 31, 2016.

OIL has maintained a favorable capital structure with minimal term debt as it funded majority of capex out of its internal accruals. As on March 31, 2017, the company had total outstanding debt of Rs.8948 crore (PY: Rs.9133 crore) comprising of foreign currency bonds (two tranches of 5.37% USD 500 million and 3.87% USD 500 million) and external commercial borrowing (ECB) loans of USD 125 million for Mozambique block and USD 250 million for domestic capex. The company had a comfortable overall gearing ratio of 0.31x (PY: 0.37x). Low gearing level along with strong liquidity position depicted by large liquid funds of Rs.6542crore comprising of free cash and bank balance further strengthen the credit profile.

Presence across various segments in O&G sector

From an E&P player, OIL has gradually expanded its operations in refining, petrochemicals and renewable power, thereby making presence across the hydrocarbon value chain. In downstream operations(refining and marketing), it has 26% stake in NRL, which operates a 3MMTPA refinery in Numaligarh (Assam) and has 10% stake in Brahmputra Cracker and Polymer Ltd (BCPL), which is establishing a gas-cracker project at Dibrugarh (Assam). Furthermore, the company also holds 5% equity in Indian Oil Corporation Ltd (rated ***'CARE AAA'***).In transportation segment, the company has production and transportation pipelines of over 1157 km, along with ownership of 23% equity in 192km DNP Ltd which has established gas pipeline from Duliajan to Numaligarh (Assam).OIL has also has renewable energy installed capacity of 150.3 MW.

Risk related to E& P business

The E&P business is a highly capital intensive business with long gestation period. The exploration activity involves high uncertainty with respect to estimation of reserves as it is a function of the quality of the available data and the engineering and geological interpretation. Results of drilling, testing, and production may substantially change the reserve estimates for a given reservoir over a period of time. OIL has also been investing large amount on capital expenditure in line with its exploratory efforts in terms of survey and exploratory wells. As most of the major producing fields enter into natural decline phase, the company deploys various Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) programmes to maintain healthy reserve replacement ratio (RRR).

Regulatory risk

OIL's profitability and cash accruals are susceptible to changes in Government policies. One of the major factors which impacts OIL's profitability and cash accruals is sharing of under-recoveries arising from discount allowed to oil refineries. As the decision related to under-recoveries is governed by GoI, any adverse policy decision might negatively impact the company's profitability. However, the Government has been keen on deregulating the sector which is well depicted by deregulating prices of petrol and diesel, along with setting limit on maximum subsidy permissible on LPG.

Apart from under-recoveries, there is uncertainty towards future bidding of oil blocks. From existing framework of production sharing contracts (PSCs), GoI is considering to allocate blocks on revenue sharing contracts (RSCs) for which modalities are being worked out.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition;]
[CARE's methodology for financial ratios (Non-Financial Sector)]

About the Company

OIL (CIN No L11101AS1959GOI001148) was established as Burma Oil Company (BOC), with first discovery of crude oil in Digboi (Assam) in 1889. 'Oil India Private Ltd' was incorporated on February 18, 1959 and later became 50:50 joint venture (JV) among BOC and GoI. In 1981, it became a wholly-owned GoI enterprise and came out with an IPO in 2009.

OIL, a Navratna PSU, is engaged in exploration, development and production of crude oil and natural gas, transportation of crude oil and production of LPG. OIL also provides various E&P related services and holds 26% equity in Numaligarh Refinery Ltd (NRL) which is operating a 3 million metric tonnes per annum (MMTPA) refinery at Numaligarh (Assam).
During FY17 (Audited; refers to the period April 1 to March 31), OIL reported a PAT of Rs.1549 crore (PY: Rs.2,302 crore) on the operating income of Rs.9,510 crore (PY: Rs.9,765 crore). During Q1FY18 (audited; refers to period from April 1 to Jun 30), OIL's operating income stood at Rs.2,468 crore (PY: Rs.2,461 crore) and the company posted PAT of Rs.450 crore(PY: Rs.494 crore).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	9765	9510
PBILDT	3588	3105
PAT	2302	1549
Overall gearing (times)	0.37	0.31
Interest coverage (times)	9.34	7.83

Status of non-cooperation with previous CRA: NA

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-Cash Credit	-	-	-	200.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	1700.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	702.03	CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	200.00	CARE AAA; Stable	-	1)CARE AAA (17-Oct-16)	1)CARE AAA (11-Jan-16)	-
2.	Non-fund-based - ST-BG/LC	ST	1700.00	CARE A1+	-	1)CARE A1+ (17-Oct-16)	1)CARE A1+ (11-Jan-16)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	702.03	CARE A1+	-	1)CARE A1+ (17-Oct-16)	1)CARE A1+ (11-Jan-16)	-

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