

Oil India Limited ^(Revised)
October 05, 2018
Ratings

RatingsFacilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term facilities	200.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Short-term facilities	2402.03	CARE A1+ (A One Plus)	Reaffirmed
Long-term/Short term facilities	974.00	CARE AAA; Stable/ A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Total facilities	3576.03 (Rupees Three thousand five hundred and seventy six crores and three lakhs only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The reaffirmation of 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 the key rating drivers
Key Rating Strengths
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, 2018, 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.

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

Reserves sufficient to provide sustainability of revenue

OIL had crude oil and natural gas domestic reserves (2P) of 78.67 million metric tonnes (MMT) and 127.58 billion cubic metres (BCM) respectively as on March 31, 2018 with exploration rights over 39 blocks in India, out of which it has Participating Interest in 10 NELP blocks (operator: 6; non-operator: 4), Petroleum Mining Lease (PML) for 22 blocks, Petroleum Exploration License (PEL) for 5 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.

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

In FY18, the operating income increased to Rs 10,656 crore (PY: Rs 9510 crore) on account of the increase in the crude oil prices in H2FY18.

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. The company's financial risk profile remains strong marked by large net worth to debt levels. The company 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, 2018, the company had total outstanding debt of Rs. 9004.25 crore comprising of foreign currency bonds (two tranches of 5.375% USD 500 million and 3.875% 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 0.32x (PY: 0.31x). Low gearing level along with strong liquidity position depicted by large liquid funds of Rs.3565 crore comprising of free cash and bank balance further strengthen the credit profile.

Key rating weakness**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 with notching based on linkages with the Government

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[CARE's methodology for service companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[Rating Methodology: Factoring linkages in ratings](#)

About the Company

OIL 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).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	9,510	10,656
PBILDT	3,105	3,911
PAT	1,549	2,668
Overall gearing (times)	0.31	0.32
Interest coverage (times)	7.83	9.41

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 - LT/ ST-Bank Guarantees	-	-	-	974.00	CARE AAA; Stable / CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	702.03	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	1700.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	200.00	CARE AAA; Stable	1)CARE AAA; Stable (09-Apr-18)	1)CARE AAA; Stable (05-Oct-17)	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+ (09-Apr-18)	1)CARE A1+ (05-Oct-17)	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+ (09-Apr-18)	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (17-Oct-16)	1)CARE A1+ (11-Jan-16)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	974.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (09-Apr-18)	-	-	-

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