

Oil India Limited

February 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	145.00	CARE AAA; Stable (Triple A; Outlook Stable)	Reaffirmed
Short-term Bank Facilities	1,102.03	CARE A1+ (A one plus)	Reaffirmed
LT/ST Non-fund based facilities	3,174.00	CARE AAA; Stable/ CARE A1+ (Triple A; Outlook: Stable / A one plus)	Reaffirmed
Total	4,421.03 (Rupees Four Thousand Four Hundred Twenty-One Crore and Three lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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, large Capex plans 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.

Rating Sensitivities

Positive Factors: NA

Negative Factors

- Increase in Overall Gearing beyond 1x
- Reduction of stake of government to less than 51%.

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 Dec 31, 2019, GoI held 59.57% 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 9.87% 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 and senior management have substantial experience in the oil and gas industry.

Mr. Sushil Chandra Mishra has taken over as the Chairman and Managing Director of OIL on October 1, 2019. He has done BE (Electronics) and MBA (Finance). He has over 35 Years of experience in OIL.

Mr. Harish Madhav, Director (Finance) is a member of the Institute of Chartered Accountants of India (ICAI). Earlier, he has served as Executive Director (Finance) at Oil India's Corporate office and was also functioning as the Chief Financial Officer (CFO) handling a diverse gamut of finance and accounting functions. He has over 30 years of rich and varied experience in Oil & Gas industry in both Upstream and Downstream sectors.

Dr. P. Chandrasekaran, Director (Exploration & Development), is a post-graduate in Geology and has done Ph.D from IIT Roorkee on the subject "Petroleum Prospect and Risk Evaluation" with an experience of over 35 years.

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. He is

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

having an experience of over 32 years in Oil Industry across a spectrum of diverse functions such as Marketing, Operations, Business Development, Human Resources, besides a stint at the Overseas Office of IndianOil at Dubai.

Mr Pramod Kumar Sharma, Director (Operations), is a Post Graduate in Geophysics from Banaras Hindu University (BHU), Varanasi (UP) and also possesses a Post Graduate Diploma in Management (PGDM) with dual specialization in HR & International Business, from All India Management Association (AIMA), New Delhi and is having an experience of more than three decades in the E&P industry in India and abroad.

Robust infrastructure and proven technical capabilities

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.

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 Brahmaputra 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. 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 188 MW (174MW for wind and 14MW for Solar).

Strong Financial profile

The company has achieved **the total operating income** of Rs. 15,039.95 crore in FY19 as against Rs. 12,066.35 crore in FY18 with the growth of 24.64% majorly on account of increase in average crude oil prices from \$55.70/bbl to \$68.5/bbl, increase in volumes sold of natural gas from 2,415 MMSCM in FY18 to 2,508 MMSCM in FY19 and increase in APM (natural gas) prices from \$2.69/mmbtu to \$3.21/mmbtu.

The company witnessed an improvement in **PBILDT margins** to 46.33% in FY19 as against 45.07% in FY18 (improvement of 126 bps) mainly on account of reduction in employee cost.

The **overall gearing** as on March 31, 2019 remained comfortable at 0.45x (PY: 0.34x) marked by nil working capital borrowings. Interest coverage ratio of OIL improved to 14.53x in FY19 (PY: 13.08x).

H1FY20 performance: During H1FY20, the total operating income of the company was Rs. 6,977.62 crore as against Rs. 7,548.64 crore in H1FY19 mainly on account of reduction in average crude oil prices from \$72.8/bbl in H1FY19 to \$63.80/bbl in H1FY20. The PBILDT margin for H1FY20 was 42.80%. The company had cash & bank balance Rs. 3,577.06 crore as on Sep 30, 2019.

Key Rating Weaknesses

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).

Aggressive capex plans

OIL has planned large Capex over Survey, Development drilling, Exploratory Drilling, Capital Equipment and overseas project of ~Rs. 3,500 to 4000 crore each in FY20 and FY21 which is majorly to be funded from internal accruals only.

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.

Liquidity: Adequate

Liquidity remains adequate as indicated by current ratio of 1.29x as on Mar. 31, 2019 (PY: 1.61x). Further, the working capital utilization also remained at nil for the 12 months ended Nov 31, 2019. The operating cycle of the company improved from 69 days in FY18 to 60 days in FY19 mainly on account of decline in inventory days to 51 days (PY: 163 days) and debtor days to 37 days (PY: 42 days). Further, free cash & bank balance improved to Rs. 6,381.65 crore on Mar 31, 2019 as against Rs. 3,692.88 crore at Mar 31, 2018.

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](#)

[Rating Methodology for Service Sector Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

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

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).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	12,066	15,040
PBILDT	5,438	6,968
PAT	2,668	2,590
Overall gearing (times)	0.34	0.45
Interest coverage (times)	13.08	14.53

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

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	-	-	-	145.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	400.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	702.03	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	3174.00	CARE AAA; Stable / 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 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.	Fund-based - LT-Cash Credit	LT	145.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Oct-18) 2)CARE AAA; Stable (09-Apr-18)	1)CARE AAA; Stable (05-Oct-17)	1)CARE AAA (17-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	400.00	CARE A1+	-	1)CARE A1+ (05-Oct-18) 2)CARE A1+ (09-Apr-18)	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (17-Oct-16)
3.	Non-fund-based - ST-Bank Guarantees	ST	702.03	CARE A1+	-	1)CARE A1+ (05-Oct-18) 2)CARE A1+ (09-Apr-18)	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (17-Oct-16)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ ST	3174.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (05-Oct-18) 2)CARE AAA; Stable / CARE A1+ (09-Apr-18)	-	-

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

Mradul Mishra

Contact no.: +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Name: Mr Manek Narang

Tel: 0114533 3233

Mobile: 9810596225

Email: manek.narang@careratings.com

Relationship Contact

Name: Swati Agrawal

Contact no. : +91-11-4533 3200

Email ID: swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**