RATING METHODOLOGY - Oil & Gas (Downstream)

June 2023

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This rating methodology updates and supersedes ICRA's earlier methodology document on this subject, published in June 2021. While this revised version incorporates a few modifications, ICRA's overall approach to rating Downstream oil companies remains materially similar. Also, a section has been added to provide a broad perspective on how environmental, social and governance (ESG) risks are incorporated by ICRA in its credit assessments.

Overview

The downstream oil sector comprises standalone refiners, PSU oil marketing companies (OMCs) and private fuel retailers. Ever since the deregulation of the refining industry in India in 1998, the credit risk profile of the domestic refiners has been determined, primarily by global demand-supply factors, beside the import duty differential between the finished products and crude oil, and exchange rates. Crude oil and refined products are international commodities that are traded freely in the open market, with major trading hubs located in the Netherlands, the US Gulf Coast, Singapore, and the Arab Gulf. Refined product prices are determined by both the regional and global demand-supply dynamics. The industry is inherently cyclical, following regional patterns of economic growth and product demand and industry patterns of investment, surplus and shortage. During periods of high refining margins, companies find it economical to add capacity, which pressures margins when demand growth slows or declines. Hence, the assessment of the credit risk profile of refiners involves a study of the cost structure, as in other cyclical commodities, besides other factors which confer competitiveness to the entities.

With regard to the OMCs and private fuel retailers that source their petroleum products either from own/group refineries or buy from other refiners, competition is largely local in nature. Marketing of petroleum products was 'deregulated' in India with effect from April 2002, and the marketing margins for various products are largely supposed to be a function of the local demand-supply, retail vs bulk sales, mode of logistics for movement of products, and distribution infrastructure. In general, the marketing margin is relatively more stable and predictable vis a vis refining margins which can be highly volatile. However, despite the deregulation of the sector, the Government of India (GoI) had been controlling the retail prices of sensitive petroleum products such as Superior Kerosene Oil (SKO) (Public Distribution System), Liquified Petroleum Gas (LPG) (domestic), High Speed Diesel (HSD) and Motor Spirit (MS), which account for around 60%-70% of all products sold by them, exposing these companies to significant regulatory risks. As part of the regulatory measures to contain the subsidy burden for the GoI, MS prices were deregulated in June 2010 while HSD prices were deregulated in October 2014. The deregulation of prices of auto-fuels authorised the OMCs to revise the retail prices of the products periodically (mostly fortnightly). Subsequently, in May 2017, the GoI implemented dynamic pricing or daily revision of the prices of auto fuels on a pilot scale in five cities which was extended across the country from June 16, 2017. However, the GoI has often exercised control over the retail prices of auto fuels, especially during sharp increase in the crude prices as was recently observed in FY2023 when crude prices remained elevated.

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This rating methodology explains ICRA's approach to assess the business and financial risk profiles of Downstream oil companies. It aims to help issuers, investors and other interested market participants understand ICRA's approach to analysing the quantitative and qualitative risks that are likely to affect the rating outcomes in this sector. The list of rating drivers covered in this methodology is not exhaustive by itself but provides an overall perspective on the rating considerations that are usually considered the most important. For analytical convenience, the key factors are grouped under the following broad heads— Industry Risk Assessment, Business Risk Assessment, Financial Risk Assessment, Strength of Promoters, Event Risk, and Management Quality & Corporate Governance Assessment.

Industry Risk Assessment

- Regulatory risk
- Cyclicality

Business Risk Assessment

- Scale of Operations
- Location and Diversity
- Complexity and GRMs
- Fiscal benefits and other taxation-related factors

Financial Risk Assessment

- Operating Profitability
- Gearing and Debt Coverage Ratios
- Working Capital Intensity
- Cash Flows and Liquidity Profile
- Foreign Currency related Risks
- Capital Expenditure and Investment plans
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- Tenure Mismatches, and Risks relating to Interest Rates and Refinancing

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- Environmental (E) and Social (S) Risks
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- Parentage/ Group Support
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- Contingent Liabilities and Off-balance Sheet Exposures
- Event Risk

Management Quality

Industry Risk Assessment

Regulatory Risk

In the past, regulatory risk had an overbearing influence on the credit risk profile of the PSU OMCs as the GoI exercised control on the pricing of sensitive petroleum products. However, with deregulation of prices of auto fuels, the risk has significantly reduced. Further, with the steps taken to reduce the under-recovery burden on cooking fuels (LPG) and track record of keeping the burden on the OMCs at negligible levels in the recent past, the regulatory risk for the OMCs is relatively lower than that in the past. Nonetheless, regulatory risk may resurface in the event a sharp rise in global crude oil prices, which would be an event risk such as imposition of windfall tax in FY2023 on the export of key petroleum products (MS, HSD, Air Turbine Fuel (ATF)) during elevated prices. Further, re-intervention in the pricing of auto fuels by the GoI would pose a key regulatory risk for private retailers.

Ever since the deregulation of the sector, Indian refineries have been using Import Parity Prices (IPP), which is inclusive of the notional import duty, for pricing their products for sale to the OMCs. In general, any value addition to the refining business is low. As a result, higher import duty differential (defined as the difference between the weighted average import duty on the petroleum products and the crude oil) translates to disproportionately higher refinery profitability. As the duties are subject to change, especially in a scenario of high oil prices, any decline in duty protection would translate into lower profitability for the refinery. The pricing philosophy includes 'trade parity pricing' for auto fuels, which currently takes into account 80% IPP and 20% Export Parity Pricing (EPP).

Cyclicality

The trends in the global supply and demand play an important role in the determination of crack spreads (price differential) between petroleum products and crude oil. Due to high capital intensity and the need to achieve scale economies to attain cost competitiveness, refining capacities come onstream in large chunks, whereas the global demand reflects more secular patterns. Bulky capacity additions lead to cyclicality in the refining industry, which, along with demand growth of petroleum products and seasonality, results in significant cyclicality and volatility in gross refinery margins (GRM) for the refiners. As the Indian refining industry is largely deregulated, movement in global crack spreads or GRMs directly impact the margins of the Indian refineries.

Overview of Marketing

Creation of marketing infrastructure is both time and capital intensive and would constitute a key entry barrier for new entrants. Besides land prices could be prohibitive to duplicate the infrastructure in key cities. Thus, an entity which has well laid out marketing infrastructure such as terminals, pipelines, depots, retail outlets, aircraft fuelling facilities and tankages, will have significant advantage over third party marketers. Transportation infrastructure can also confer competitive advantage to the marketers. In general, transportation by pipelines is the most cost-effective mode vis-a-vis road and rail. Some OMCs have invested a significant amount of money on brand building (such as branded auto fuels, fuel credit cards, convenience stores within the auto fuel outlets etc) which enables them to retain their customer base. Branded fuels also help achieve higher marketing margin vis-à-vis traditional fuels

Business Risk Assessment

Scale of operations

Size (as measured by crude throughput) per se is not a guarantee of high returns in a commoditised industry that is susceptible to excess capacity. However, refining is a volume-driven business with a large fixed-cost component that benefits from economies of scale. A company with significant capacity is also generally in a better position than a small refiner to negotiate

discounts on crude oil, besides transporting the crude in large capacity ships such as the ultra large crude carriers (ULCCs) and the very large crude carriers (VLCCs), which confer freight advantage. It is also likely to have logistics assets such as pipelines and terminals that can provide efficient market access.

Location and diversity

A coastal refinery will be advantageously placed to export the products, while an inland refinery will be advantageously placed to serve the inland domestic market. Inland refinery will have an advantage over a coastal refinery in terms of logistics cost while coastal refineries will have a better logistical advantage to export to other markets and in importing crude owing to lower inventory requirements. Considering that a large proportion of crude oil is imported by India, coastal refineries benefit from lower inventory requirements and lower price risk, which may arise due to crude and forex fluctuations. Nevertheless, a diversified mix of inland and coastal refineries could confer the players the flexibility to operate both in the domestic and export markets efficiently. Additionally, refineries at multiple locations reduces the vulnerability to any force majeure events such as fire etc.

Complexity and GRMs

A highly complex refinery will be able to process the heaviest of oils and yet produce value-added petroleum products of high quality. More often than not, heavy-sour crude oils trade at a discount to light-sweet oils. As a result, using a low-cost crude oil for manufacturing high value products, will usually translate into superior GRM; however, the same could be partly offset by higher capital cost of complex refineries and high energy consumption. In general, light and middle distillates enjoy higher value in the product markets, compared to heavy distillates which typically sell at a discount to crude oil. Thus, higher the distillate yield, the higher the overall realisation of the entities. Distillate yield is a function of the quality of the crude oil used (light vs heavy), complexity of the refinery and its compliance with environmental norms. Complexity of a refinery is largely determined by the kind of secondary processing facilities that have been installed, such as Fluidised Catalytic Cracker (FCC), hydrocracker, coker, visbreaker and Catalytic Reforming Unit (CRU) which help in production of higher distillates from the Vacuum Distillation Unit (VDU) bottoms. Forward integration into value-added petrochemicals such as polymers, elastomers, fibre intermediates and surfactants can also result in higher complexity.

Net under-recovery burden

The Indian fuel retail market is dominated by the PSU OMCs, given the Government's intervention over the years to control the price of various petroleum products. As a result, they have in the past borne some net-under recoveries on marketing on sensitive products, due to lag in the price revision. While the refining margins for PSU OMCs, are determined based on the market dynamics, similar to that of standalone refiners, the under-recovery in the retail sales of auto and domestic fuel diminishes the aggregate margins for the OMCs. Thus, a higher share of retail sales in the overall production of the petroleum products, increases the exposure of the downstream entities to under-recovery, which is assessed against the backdrop of the extent of under-recoveries in the past.

Summary of the Salient Business Risk Factors

	Strongest		Weakest
Crude Throughput	*Average for last three years >=20 MMTPA.* Relatively larger volumes provide better economies of scale and better negotiating power with crude suppliers, etc	→	*Average for last three years < 3 MMTPA.* Relatively lower volumes provide reduced economies of scale and reduces negotiating power with crude suppliers, etc
Complexity	*Complexity >= 10* A highly complex refinery will be able to process the heaviest of oils and yet produce value added petroleum products of high quality	→	*Complexity < 3* A less complex refinery will not be able to process the lower cost heavy and sour oils

Asset diversity in Refinery Location	Refineries at multiple locations **(>=5)** reduces the vulnerability to any force majeure events	→	As single asset company is vulnerability to any force majeure events
Location Advantages	Most refineries at shore which reduces vulnerability to inventory losses in high crude oil price volatility	→	Most refineries landlocked which increases vulnerability to inventory losses in high crude oil price volatility
GRMs	Past 5 years and future 3 years average of >= $7/bbl	→	Past 5 years and future 3 years average of < $2/bbl
Net UR burden as % of PBT	Low net under recovery burden as % of PBT (<5%)	→	High net under recovery burden as % of PBT (>=40%)

Financial Risk Assessment

To assess the entity's financial position, ICRA analyses trends in profitability, gearing, coverage and liquidity. ICRA also draws up projections on the likely financial position of the entity under various scenarios. Besides, ICRA takes into account the commitments of the entity towards other group entities, new ventures, and its investments in subsidiaries/SPVs. The financial metrics provide a useful reference not only to evaluate the performance trends of an entity over a given time horizon, but also enables a comparison with its peers. This document provides a summary of some critical ratios that ICRA considers important in its assessment. For a more detailed description, readers may refer to the note titled *Approach for Financial Ratio Analysis* published on ICRA's website. Some of the key metrics analysed are discussed below.

Profitability metrics

The operating profitability of the downstream entities largely depends on the gross refining margins (GRMs), which in turn depends on the refinery's complexity and the crack spreads of the petroleum products. Higher capacity utilisation of refineries results in better absorption of fixed costs, resulting in better margins. The extent of under-recovery would also drive profitability. Furthermore, in a rising oil price scenario, net earnings get negatively impacted as the power and fuel costs rise. Thus, any savings will directly accrue to the bottom line of the companies from the sale of products, which were not consumed for captive energy requirements.

The analysis here focuses on determining the trend in the entity's operating profitability and how the same appears by peer comparison. While analysing the refining companies, the share of inventory gain/loss to the overall profitability is analysed to understand the core refining margins. Inventory gain can account for a significant share of profits in a rising oil price scenario, while the converse could happen in a falling price environment. Exchange fluctuations can also influence the reported profitability because of high import dependence on crude oil. An analysis of the break-even GRM (for book profit, cash profit, debt servicing and to achieve target RoCE) can also throw light on the risk profile of the greenfield refinery. Additionally, as the refining business is cyclical there may be significant variations in profitability metrics over the years. Thus, the focus is to analyse the credit profile of the downstream entities across cycles using metrics such as long-period median profitability

Validation of Business Risk through Profitability Metrics
[Indicative Metrics[1]]

	Strongest	Weakest
RoCE	>=25%	<10%
Volatility in RoCE	<=10%	>55%

Gearing and coverage indicators

The objective here is to ascertain the level of debt in relation to the entity's own funds and is viewed in conjunction with the business risks that the entity is exposed to. An entity with lower leverage is better equipped to withstand volatility in cash flow generation in situations of economic downturn, competitive challenges, unexpected costs, changing consumer preferences, or regulatory changes. Higher the coverage, higher the cushion available with an entity to withstand variability in profits for making good its financial obligations.

The trends in the entity's leverage and debt service coverage ratios like Interest Coverage, Total Debt/OPBDITA and Net Cash Accruals/Total Debt, Debt Service Coverage Ratio are examined.

Assessment of Leverage
[Indicative Metrics]

	Strongest	Weakest
Indebtedness Ratio	<=0.9x	>3.0x
Debt to Profit Ratio	<=0.5x	>5.0x

Assessment of Coverage
[Indicative Metrics]

	Strongest	Weakest
Interest Coverage	>=18.0x	<2.0x
DSCR	>=4.0x	<1.1x

Working capital intensity

The analysis here evaluates the trends in the entity's key working capital indicators like receivables, inventory and creditors, again with respect to industry peers. ICRA notes that working capital intensity, as measured by NWC/OI, is low in the R&M business, because of large cash sales in retailing, low inventory days and moderate creditor days. However, actual working capital blockage in absolute amount can be significant in a higher oil price scenario. Efficient inventory management can partially offset the risks associated a volatile price environment for both crude oil and petroleum products. ICRA also notes that inland refineries hold relatively higher inventory of crude oil compared to coastal refineries, which are locked up in the

1 *The indicative financial metrics mentioned here and elsewhere in the document are intended to provide a broad overview to the readers regarding what ICRA generally considers as 'relatively strong' or 'relatively weak' metrics. It is, however, possible that an entity has relatively weaker metrices on one or more financial parameters, but its credit risk is assessed to be low because of other mitigating factors, including (but not limited to) stronger metrices on other financial parameters, a healthy business risk profile, strong financial flexibility or a strong promoter group that is willing to extend distress support to it.*

inland pipelines and additional tankages. Hence, their earnings are more sensitive to price volatility through higher inventory losses/gains compared to coastal refineries.

Cash flows and liquidity profile

In the past, the actual level of cash flows were much lower when compared to the reported profitability of the OMCs due to the time lag associated with the receipt of budgetary support for under-recoveries. However, the payments from the GoI have been timely for the past few years.

Liquidity ratios measure the buffer, which an entity has in the form of cash or cash equivalents with respect to its obligations that can be utilised in case of any temporary cash flow mismatch. The existence of adequate buffers of liquid assets/bank lines to meet short-term obligations is viewed positively. In addition, ICRA notes that an entity with strong liquidity can mitigate the impact of any short-term exigencies (such as a sudden sharp increase in crude prices) or events that might adversely impact cash flows in the interim. The entity's liquidity is assessed by its free cash flows, unutilised bank / credit limits andliquid investments.

Foreign currency-related risks

Such risks arise if an entity's major costs and revenues are denominated in different currencies. Examples in this regard would include companies selling in the domestic market but making large imports, and export-oriented units operating largely on the domestic cost structure. For the refineries, while both their revenues (GRMs) as well as raw material (crude oil) are denominated in USD, the lag between the import of the crude and the subsequent refining / sale of refined products, results in forex exposure. To mitigate the above risk, the refining companies try to hedge through forex borrowings (for working capital and capex). Nevertheless, reported earnings can still be influenced by 'Mark to Market' losses/gains on USD-denominated creditors/debt liabilities. From a cash flow perspective, while refineries and OMCs could largely be net long on USD, minor mismatches can arise which they tend to hedge. The ICRA analysis focuses on understanding the forex mismatches and hedging practices followed.

Capital expenditure and investment plans

In general, refining is a capital-intensive business, thus exposing the refineries to significant project risk if they embark upon expansion or debottlenecking projects. In the past, projects have also suffered significant time & cost overrun because of several factors, which erode the project economics. Also, some of the projects, which are required for complying with the environmental norms (such as fuel quality improvement-Euro VI projects), or for, pipeline replacements etc. may not generate any meaningful incremental profits, thereby having the potential to depress the overall Return on Capital Employed (RoCE) of the refineries. Though the company would be exposed to project execution risks, the past track record of the company in executing large and complex projects is evaluated. The quantum of the capex and the funding plans for the same are also evaluated to understand the overall impact on the credit risk profile of the company.

Commodity hedging risks

Some refineries resort to hedging of commodity risks, which can encompass crude oil, petroleum products and crack spreads. ICRA's analysis focuses on the hedging instruments used, hedging platform (OTCs Vs Commodity exchanges) with a focus on understanding the downside risks to the hedged position. While hedging per se could result in predictable price levels, an aggressive strategy could expose companies to liquidity risks.

Tenure mismatches and risks relating to interest rates and refinancing

Large dependence on short-term borrowings to fund-long term investments can expose an entity to significant re-financing risks, especially during periods of tight liquidity. The existence of adequate buffers of liquid assets/bank lines to meet short-term obligations is viewed positively. Similarly, the extent to which an entity would be impacted by movements in interest rates is also evaluated.

Assessment of Environmental, Social and Governance (ESG) Risks

Environmental (E) and Social (S) Risks

As this methodology highlights, while undertaking credit assessment of entities, ICRA seeks to incorporate all relevant credit considerations into its rating decisions while taking a forward-looking view on the risks and the mitigations. The relevant credit considerations include the E&S factors that could affect the rated entity. While ICRA's analytical approach does not explicitly disaggregate these risks to assess their impact on the rating, these risks are often assessed broadly. Further, it is not always feasible to fully or precisely disaggregate the sub-components of E&S risks in credit analysis since these considerations often tend to overlap. That said, the materiality of the E&S risks and the time horizon over which they are expected to crystallise differs widely across sectors and entities. In some cases, while the E&S risks could be material, their effect on the credit profile may be muted because of other fundamental strengths of the entity. In other cases, the adverse impact of the E&S risks is expected to play out in the distant future, and hence these considerations do not necessarily weigh on the rating today—with the expectation that when these risks manifest in the distant future, the rated entity by then would possibly adapt itself by realigning its business model.

While evaluating E&S risks, ICRA's objective is only to assess the direct and indirect risks that an entity faces and how it already is or is intending to mitigate the impact of such risks on its credit profile. As an example, ICRA only assesses whether an entity is exposed to physical climate risks, or carbon-transition risks such as those arising from changes in regulations or other environmental and social risks; and seeks to understand the various mitigation and adaptation approaches that the entity is implementing to mollify these risks. Global efforts towards reducing carbon emissions and the shift to renewable/green energy have been gaining ground.

Refineries are required to comply with the increasingly stringent product specifications (such as equivalent of Bharat VI) as stipulated by the regulators. The specifications are set for auto fuels as well as industrial fuels. A refinery which can't meet the latest specifications will have to either stop operations or blend its product streams with those from another refinery, which can meet the specification. Acceptability of the products in the export market is also contingent on the ability to meet the specifications of the export destinations. Besides, the product specifications, refineries are also subject to stringent emission norms (air/liquid/solid), which can impact the profitability of older refineries as they are forced to use costlier light-sweet crude oil to meet the environmental norms.

Downstream companies are exposed to carbon transition risk. Global efforts towards transition to low-carbon energy will gradually lower the demand for petroleum products in the coming decades. However, the carbon transition risk for domestic downstream companies in the medium term is mitigated by India's significant dependence on the key petroleum products. While the oil refining and marketing sector remains a socially important sector, given its role in ensuring energy security, the social risk for demand is from the changing end-user preference, with the Government also incentivising the reduction in carbon emissions. However, the risk is not expected to fructify in the near to medium term to the extent of major disruption in the oil and gas market. Over the long term the demand for auto-fuels is expected to face the risk of competition from electric vehicles and hydrogen as fuel. As of now the penetration of electric vehicles is very low but it is expected to increase as battery costs fall. Similarly, the use of hydrogen as a fuel is as yet at a nascent stage. The penetration of electric vehicles and use of hydrogen as fuel and its economics vis-à-vis internal combustion engines would remain a key. Some of the downstream companies have forward integrated into petrochemicals to make use of the surplus industrial fuel/feedstock. Integration into downstream petrochemicals also reduces the vulnerability of a company to the refining cycle and against the emerging risk of electric vehicles and use of hydrogen as fuel.

The social risk also arises from Government’s intervention in the pricing of the retail products, to ensure affordability and minimise the impact on inflation. Increased diversification and forward integration into petrochemicals would minimise the adverse impact of the carbon-transition risk for the refining companies.

Governance practices

A sound corporate governance structure attempts to make clear the distinction of power and responsibilities between the Board of Directors and the management. The constitution of an entity's Board and the Board of Directors' participation in strategy formulation, besides the entity's adherence to legal and statutory compliance requirements are factored in during credit assessments. ICRA seeks to gain a qualitative understanding of an entity's commitment to following transparent and credible. practices by the way its financial statements are reported, their level of disclosures, consistency in communication and the openness about sharing information during the credit rating exercise. Besides, the corporate group structure (whether simple or complex), the rated entity's related party transactions and instances of supporting group entities at the expense of debt holders are also assessed.

Other Elements of Credit Risk Assessment

Parentage/ Group support

Apart from standalone credit considerations, the likelihood of extraordinary support coming in from the parent to an entity or the support that an entity is likely to extend to the other group companies is factored while assessing credit profile of the entity. This process involves an assessment of the ability and willingness of the parent to extend support to the entity (and vice-versa), in addition to evaluating the entity's own fundamental credit strength. Considering the strategic importance of the sector in meeting the socio-economic objectives of the GoI, the latter has provided support through budgetary allocations. . The PSU oil companies have supported their downstream oil subsidiaries as and when required by providing loans and advances[2].

Financial flexibility

An entity's financial flexibility (or the lack thereof) is reflected in its ability to access capital or money markets at short notice and enjoy the confidence of banks, financial institutions, and intermediaries. A strong financial flexibility allows an entity to raise fresh borrowings or refinance existing ones in quick time, whenever required. The entity's financial flexibility is assessed by the nature of its relationship with banks, financial institutions and other intermediaries, strategic importance of the entity to the group to which it belongs, along with the financial strength of group entities. Generally, the Downstream oil companies enjoy exceptional financial flexibility owing to their large size, strategic importance to the energy sector and strong relationship with banks, financial institutions and intermediaries.

Debt-servicing track record

The debt-servicing track record of the company forms an important rating consideration. Any history of past delays or defaults in meeting interest and principal repayment obligations reduces the comfort level with respect to the company's future debt servicing capability and willingness. Nevertheless, the reason behind past defaults is also analysed, which could also be due to adverse demand situations in the underlying industry. The company's ability to honour its debt obligations during the period of cyclical stress is also factored in.

Contingent Liabilities and Off-balance Sheet Exposures

ICRA reviews the contingent liabilities and off-balance sheet exposures as disclosed by the entity in its Annual Report and evaluates the likelihood of their devolvement and the financial implications of the same.

[2] *For more details on this, readers may refer to the document titled, "Impact of Parent or Group Support on an entity's Credit rating", available on ICRA's website*

Event Risk

ICRA recognises the possibility of events, such as unrelated diversification, mergers and acquisitions, business restructuring, asset sales and spin-offs, capital restructuring; and litigations, which could have a material impact on the credit profile of a company. Incorporating the impact of such discrete events in the credit rating, from the beginning, is often difficult. Depending on whether and when such events occur, the rating opinion could be different. To take rating decisions in such cases, ICRA applies its analytical judgment based on the rated entity's track record, the credibility of the management and the experience of having seen similar situations play out in other entities. However, given the nature of such events, it is possible that the rating may undergo a material change later, upon the occurrence of the event.

Management Quality

In addition to the business and financial risk analysis, all debt ratings incorporate an assessment of the quality of the entity's management, its financial policies and governance practices. An experienced management and independent directors on its board are considered positive factors. An entity should practice sound corporate governance policies to serve the interest of all stakeholders.

In addition, the likely cash flow impact on the rated entity, from the possible need to support other group entities are of importance, in case the rated entity is among the stronger ones within the group. Usually, a detailed discussion is held with the management of the rated entity to understand its business objectives, plans and strategies, and views on past performance, besides the outlook on the rated entity's industry.

Some of the points assessed are:

- Experience of the promoter/ management in the industry
- Commitment of the promoter/ management to the concerned line of business
- Risk appetite of the promoter/ management and risk mitigation plans
- The rated entity's plans regarding new projects, acquisitions, and investment in non-core business segments
- The rated entity's policies on leveraging, interest risk and currency risks

Periodic interactions with the management also help to estimate the possibility of the management's tendency to deviate from its core philosophy in times of stress.

Summing Up

ICRA's credit ratings are a symbolic representation of its opinion on the relative credit risk associated with the instrument being rated. This opinion is arrived at following a detailed evaluation of the entity's business and financial risks, its competitive strengths, its likely cash flows over the near to medium term and the adequacy of such cash flows vis-à-vis its debt servicing obligations and other funding requirements. The credit risk profile of a downstream oil company is largely determined by the size, complexity and the GRMs achieved and extent of leveraging.

ANNEXURE

Summary of rating factors and an example to illustrate the key building blocks of a credit rating

The above graphic is only for illustration purpose and does not represent a rating output from a formulaic model. The ratings assigned by ICRA are determined by Rating Committees based on both quantitative and qualitative considerations.

		Strong	Comfortable	Adequate	Moderate	Weak
Industry Risk	Regulatory protection/restriction in marketing					
Business Risk	Crude Throughput					
	Complexity					
	Asset Diversity in Refinery Locations					
	Location advantage					
	GRMs					
	Regulatory protection / restriction in marketing					
Financial Risk	Leverage					
	Coverage					

		Enhance	Support/ Neutral	Hinder
	Diversification			
Do these factors enhance or hinder the credit profile?	Refinancing Dependence, Liquidity and Financial Flexibility			
	Currency Risk			
	Financial Policy			
	Management, Governance & Reporting			

		Very High				High				Moderate				Low	
Parent Support	Likelihood of Parent Support														
	Rating of Parent	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B/ C category
	Final Rating	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+**	**BB**	**BB-**	**B/ C category**

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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