September 20, 2021

Chennai Petroleum Corporation Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	1,000.00	1,000.00	[ICRA]AAA(Stable); Reaffirmed
Non-Convertible Debenture Programme	1,000.00	1,000.00	[ICRA]AAA(Stable); Reaffirmed
Commercial Paper	6,000.0	7,500.0	[ICRA]A1+; Reaffirmed/ assigned
Total	**8,000.00**	**9,500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reflect the majority ownership (51.9%) of Indian Oil Corporation Limited (IOC) (rated [ICRA] AAA(stable)/[ICRA]A1+) in Chennai Petroleum Corporation Limited (CPCL) and strong business linkages, particularly with respect to imported crude oil sourcing and product off-take. ICRA believes IOC would support CPCL to meet its financial obligations, should the need arise. CPCL remains strategically important to IOC as the latter meets its product requirements for the South Indian market from the former. Further, the rating also reflects CPCL's established position in the refining business.

The rating, however, also considers the vulnerability of the company's profitability to global refining margin cycle, import duty protection, and INR-USD parity levels. The gross refining margins (GRMs), however, witnessed healthy recovery in FY2021 with the overall GRM improving to $7.1/bbl in FY2021 from -$1.2/bbl in FY2020. This was primarily supported by inventory gains, which witnessed some moderation to $5.68/bbl in Q1 FY2022.

The company is also exposed to project implementation risks as CPCL is in the midst of a capex cycle; however, the risk is significantly mitigated by CPCL's track record of successfully implementing several large projects. The refinery capacity utilisation was subdued at ~72% in FY2021 by the impact of the pandemic in H1 FY2021; although there was recovery in H2 FY2021. Due to the adverse impact of the second wave of the pandemic, the capacity utilisation remained subdued at 71% in Q1 FY2022.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that CPCL will continue to benefit from its strategic importance to the IOC Group and its favourable geographic location.

Key rating drivers and their description

Credit strengths

Strong parentage - IOC has the controlling stake in the company, with a shareholding of 51.9%. CPCL derives significant operational benefits as part of the IOC Group, with respect to imported crude oil sourcing and product off-take. IOC had also extended financial support to CPCL in FY2016 by subscribing to Rs. 1,000.0 crore non-convertible preference shares on a private placement basis. However, during June 2018, with improvement in financial performance in the preceding two fiscals, CPCL repaid Rs. 500.0 crore of non-convertible preference share to IOC. ICRA believes due to CPCL's strategic position within the IOC Group in South India, it would support CPCL to meet its financial obligations, should the need arise.

IOC, being the largest oil refining and marketing company in India, commands considerable economic importance. The company holds significant strategic importance for GoI as it helps to meet the socio-economic objectives of price control of sensitive products, such as subsidised liquefied petroleum gas (LPG) and superior kerosene oil (SKO). The company is also the largest contributor to the government exchequer. Thus, the sovereign support is expected to continue. The IOC Group dominates the domestic refining sector with a share of 32.5% as on June 30, 2021. IOC is also the leading public oil marketing company with a ~39% market share in the petroleum products sold in the country (including private players) as of end of FY2021 (as per consumption data from Petroleum Planning & Analysis Cell, PPAC). The Group has the largest marketing network across the country and actively undertakes multiple branding and customer loyalty initiatives. On a consolidated basis, IOC has 11 refineries (including two under CPCL) across India.

Low demand risk due to locational advantage; integrated operations of Group mitigates cyclicality risk in refining segment of consolidated entity – CPCL benefits from being the only refinery company in the IOC Group in South India, resulting in low demand risk. Over the last decade, IOC has implemented several pipeline projects to evacuate products from CPCL in a cost-effective manner and to strengthen its presence in the southern market.

Financial flexibility with lenders - Due to its extensive track record and strong parentage, CPCL enjoys high financial flexibility with its lenders, allowing it to avail debt at a short notice at low interest rates.

Credit challenges

Leveraged capital structure and project implementation risks - CPCL's financial risk profile is characterised by leveraged capital structure, as the company is amid a debt-funded capex cycle. Gearing had witnessed significant deterioration to 6.4 times as on March 31, 2020 compared to 1.9 times as on March 31, 2019 due to high inventory losses in Q4 FY2020. While there was increase in debt outstanding as on March 31, 2021, gearing witnessed some moderation to 5.7 times as on March 31, 2021 due to improvement in net worth position Further, ICRA takes note of expansion plans of the refinery capacity of the CBR unit, which will entail significant capex. CPCL's and IOC's board has approved the incorporation of a JV with CPCL and IOC, wherein CPCL and IOC will have 25% stake each and the remaining will be held by financial institutions/investors. While the overall project cost is estimated to be ~Rs. 289 billion, the funding strategy is yet to be finalised and will need to be approved by the IOC board. ICRA will monitor developments on this front.

Vulnerability of profitability to global refining margin cycle, import duty protection, and INR-USD parity levels – CPCL has limited pricing flexibility and its margins are vulnerable to movement in international crude prices and crack spreads, import duty differentials and foreign exchange (forex) rates. This was reflected during FY2019 and FY2020, when the company witnessed margin contraction because of inventory losses, weak crack spreads and forex losses. However, due to inventory and forex gain, margins improved in FY2021. The same, however, witnessed some moderation in Q1 FY2022.

Liquidity position: Adequate

The company's fund flow from operations had remained positive in FY2021. While it has a repayment obligation of ~Rs. 500 crore and is expected to incur a capex of around Rs. 480 crore in FY2022, the liquidity is expected to remain adequate supported by cash accruals, unutilised working capital limits and the ability to raise funds at short notice for refinancing, if required, benefiting from strong financial flexibility with lenders due to its parentage.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Downward pressure on CPCL's ratings could arise if there is sustained weakening of the credit profile of CPCL, or if there is weakening of credit profile of its parent, IOC, or weakening of linkages between IOC and CPCL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Downstream Oil Companies
Parent/Group Support	Parent – Indian Oil Corporation Limited We expect CPCL's parent, IOC to remain willing to extend financial support to CPCL, (rated [ICRA]AAA(Stable)/[ICRA]A1+) should there be a need, given the high strategic importance that CPCL holds for IOC and the strong operational linkages between the two companies.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CPCL. As on March 31, 2021, the company had two joint ventures, which are all enlisted in Annexure-2.

About the company

CPCL, earlier known as Madras Refineries Limited (MRL), was established in December 1965 as a joint venture of the Government of India (GoI), Amoco Inc. of USA (Amoco), and the National Iranian Oil Company (NIOC), with their initial equity contributions in the venture being in the ratio of 74:13:13. In 1985, Amoco divested its equity holding in favour of GoI. CPCL came out with a public issue in 1994, wherein the GoI divested part of its equity stake. In FY2001, the GoI sold its stake in CPCL to IOC as part of its efforts to insulate stand-alone refineries from market volatility, following the dismantling of the Administered Pricing Mechanism (APM). As on March 31, 2021, IOC held 51.9% equity stake in CPCL, with NIOC and others holding 15.4% and 32.7%, respectively. CPCL currently operates a 10.5-mmtpa refinery in Manali, near Chennai. Being a stand-alone refinery, CPCL's products, barring a few industrial feedstock and fuels, have always been sold by oil marketing companies. After IOC's acquisition of the majority stake in CPCL, the bulk of the latter's output is sold through IOC.

Key financial indicators (audited)

CPCL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	37,116.7	22,444.8
PAT (Rs. crore)	-2,083.5	231.7
OPBDIT/OI (%)	-5.2%	9.0%
PAT/OI (%)	-5.6%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	8.06	8.63
Total Debt/OPBDIT (times)	-4.53	4.55
Interest Coverage (times)	-4.62	5.35

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History	for the past 3 years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 16, 2021 Sep 20, 2021	Jun 12, 2020	Jan 06, 2020	Nov 20, 2018
1	NCD	Long-term	1000.0	810	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-	-
2	NCD	Long-term	1000.0	775.0	**[ICRA]AAA (Stable)**	-	-	-
3	Commercial Paper	Short term	7500.0		**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
INE178A08029	NCD	17-Jul-2020	5.78%	17-Jul-2025	810^	[ICRA]AAA (Stable)
INE178A08037	NCD	23-Jun-2021	5.44%	24-Jun-2024	775^	[ICRA]AAA (Stable)
NA	NCD	Yet to be placed	NA	NA	415	[ICRA]AAA (Stable)
INE178A14GU4	Commercial Paper	30-Jun-2021	NA	30-Sep-2021	500	[ICRA]A1+
INE178A14GV2	Commercial Paper	03-Aug-2021	NA	18-Oct-2021	150	[ICRA]A1+
INE178A14GW0	Commercial Paper	03-Aug-2021	NA	03-Nov-2021	800	[ICRA]A1+
INE178A14GV2	Commercial Paper	18-Aug-2021	NA	18-Oct-2021	400	[ICRA]A1+
INE178A14GV2	Commercial Paper	26-Aug-2021	NA	18-Oct-2021	215	[ICRA]A1+
INE178A14GX8	Commercial Paper	31-Aug-2021	NA	18-Nov-2021	225	[ICRA]A1+
INE178A14GX8	Commercial Paper	01-Sep-2021	NA	18-Nov-2021	225	[ICRA]A1+
NA	Commercial Paper	Yet to be placed	NA	NA	4985	[ICRA]A1+

Source: *Company ^Rs. 1585 crore placed out of Rs. 2000 crore*

Annexure-2: List of entities considered for consolidated analysis

Company Name	CPCL Ownership	Consolidation Approach
Indian Additives Limited	50%	Limited Consolidation
National Aromatics and Petrochemicals Corporation Limited	50%	Limited Consolidation

Source: *Company annual report FY2021*

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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.

For more information, visit www.icra.in

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