September 29, 2022

Indian Oil Corporation Limited: Ratings reaffirmed and assigned for fresh NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture	14,125.0	14,125.0	[ICRA]AAA (Stable); reaffirmed
Non-Convertible Debenture	0.0	2,500.0	[ICRA]AAA (Stable); assigned
Commercial Paper	40,000.0	40,000.0	[ICRA]A1+; reaffirmed
Total	**54,125.0**	**56,625.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in IOC's high financial flexibility arising from its large sovereign ownership (51.5% stakes owned by the GoI), significant portfolio of liquid investments including GoI bonds and investments in GAIL (India) Limited (GAIL, rated [ICRA]AAA (Stable)/[ICRA]A1+), Oil & Natural Gas corporation (ONGC, rated [ICRA]AAA(Stable)/[ICRA]A1+) and Oil India limited (OIL)), and ability to raise funds from the domestic/foreign banking system and capital markets at competitive rates. Besides, the ratings of the company continue to reflect its dominant and strategically important position in the Indian energy sector, its integrated business model and its role in fulfilling the socio-economic objectives of the GoI.

The ratings take into account the diversified location base of the company's refineries (11 refineries on a consolidated basis), translating into sizeable capacities and more than 32% share in the domestic refining sector as on June 30, 2022. The ratings also reflect integration of IOC in marketing, pipelines, and petrochemicals segments which provides revenue diversification and reduces the volatility arising out of one particular segment. The ratings also factor in the vulnerability of the company's profitability to the global refining margin cycle, import duty protection, and INR-USD parity levels. IOC is also exposed to project implementation risks as it is in the midst of implementing large projects spanning the entire downstream value chain, though the risk is largely mitigated by the company's proven track record of successfully implementing several large projects.

After witnessing a significant decline in the GRMs in FY2020, the same started to witness steady improvement. Over the last few quarters, the GRMs have remained strong, resulting in healthy EBITDA generation in the refining segment for the company. While the GRMs have started to moderate now, the profit generation for the current fiscal is likely to remain healthy for the refining segment. The marketing margins however have remained depressed over the last 2-3 quarters and are likely to remain under pressure in the near term as the crude prices remained elevated and the auto-fuel retail prices did not increase commensurately. The other major segments – petrochemicals and pipelines continue to deliver steady performance, thereby supporting the EBITDA.

IOC will continue to be subjected to risks related to the pricing of sensitive petroleum products in an elevated crude oil price environment, however the past track record of the GoI to ensure low under-recovery levels for PSU OMCs provides comfort from the credit perspective. Any adverse change in the GoI's policy in this regard, resulting in a sustained weakening of key credit metrics of IOC will be a key rating sensitivity. Moreover, given the elevated crude prices, the working capital requirement for the OMCs are expected to remain high.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that IOCL will continue to benefit from its dominant position in the domestic energy sector and its strategic importance to the GoI.

Key rating drivers and their description

Credit strengths

Strategic importance for the GoI in the domestic energy sector - 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 in meeting the socio-economic objectives of the government through control on prices of sensitive products like 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 going forward as well.

Dominant position in the domestic refining and marketing business - The company dominates the domestic refining sector with a share of over 32%. The company is also the leading public oil marketing company with a healthy market share in the petroleum products sold in the country (including private players). The company has the largest marketing network spanning across the country and actively undertakes multiple branding and customer loyalty initiatives.

Diversified location base of the refineries - The company owns and operates nine refineries spread across the country besides having a majority stake in Chennai Petroleum Corporation Limited (CPCL), which provides it control over an additional two refineries, taking the aggregate to eleven. Six out of its nine refineries are located in inland areas. The most recently set up refinery at Paradip, being situated at the coast, has improved IOC's diversification from the perspective of land-locked vis-à-vis coastal presence.

Integration in marketing, pipelines, and petrochemicals segments reducing cyclicality associated with the refining segment – IOC's large marketing operations generate largely stable profits, although subject to risks related to regulatory developments and inventory gains/losses to some extent. Further, a large pipeline infrastructure owned by the company also results in stable cash generation for the company. The forward integration of IOC into petrochemical segment provides operational synergies, like conversion of surplus products in the country such as naphtha, into higher value petrochemicals (like HDPE, PP etc), which also lead to higher margins. Overall, significant integration across segments reduces the risks related to refining operations. However, presently, the OMCs in general and IOC in particular is incurring heavy losses in marketing segment and the same is supported by healthy GRMs and thus refining, pipeline and petrochemicals division remain steady profit generating segments.

Considerable liquidity and financial flexibility derived from its investment portfolio and significant sovereign ownership: IOC continues to enjoy high financial flexibility, that has enabled it to borrow from the domestic and overseas banking system and capital markets at competitive rates, to fund its large working capital requirements and for project finance. The same is supported by IOC's strong parentage arising from the GoI's 51.50% stake. The company's investments in ONGC, GAIL, and Oil India with current aggregate market value of ~Rs. 16,000 crore as on August 16, 2022, besides unsold stock of GoI Special Oil bonds and GoI securities of ~Rs. 11,597 crore as on March 31, 2022, provide considerable financial flexibility.

Credit challenges

Vulnerability of the company's profitability to the global refining margin cycle, import duty protection, and INR-USD parity levels - Given the nature of the business, the company would remain exposed to the movement in the commodity price cycles and the volatility in the crude prices. Any adverse changes in the import duty on its products would also have an impact on the company's domestic sales. The company's profitability is also exposed to the forex rates (INR-US$) given the business is largely dollarized on sales, crude procurement and foreign currency loans.

Exposed to regulatory risks related to under-recoveries in an elevated crude oil price environment– Higher crude oil prices, if sustained, lead to material increase in gross under-recoveries (GURs) as has been the case in the past and consequently raise the working capital requirements and short-term debt levels of OMCs, thereby negatively impacting their profitability. ICRA expects the Gross Under-recovery (GUR) for the OMCs to remain nil or marginal. Additionally, there have been instances in the past when in an elevated crude oil price environment, the GoI has intervened in the pricing of the Motor Spirit (MS) and High Speed Diesel (HSD) which has negatively impacted the marketing profitability of the OMCs, as has been the case presently.

Accordingly, the regulatory risks for IOC related to pricing of sensitive petroleum products and auto fuels remains in an elevated crude oil price environment, however the past track record of the GoI to ensure low under-recovery levels for PSU OMCs provides comfort from the credit perspective. Any adverse change in the GoI's policy in this regard, resulting in a sustained weakening of key credit metrics of IOCL will be a key rating sensitivity

Significant project implementation risks, partly mitigated by the long-demonstrated history of IOC in implementing projects across refining, marketing, petrochemicals and pipelines segments: The company has significant capex plans spanning the entire downstream value chain with a total outlay of more than Rs. 1.5 lakh crore spanning over next 4-5 years. The capex plans include the brownfield expansion of refineries, setting up of nearly 6,500 km of pipeline infrastructure, investments in setting up of marketing/retail infrastructure, setting up of petrochemical plants etc. Any material time or cost overruns in the group projects could lead to an increase in the company's borrowing levels and moderation of credit metrics. However, the risk is largely mitigated by the company's proven track record of successfully implementing several large projects.

With the company increasing its upstream portfolio it is exposed to geological, technology and execution risks that are inherent in E&P activities – The company currently has upstream portfolio of 20 blocks (domestic and overseas) and has been actively trying to expand the same. During FY2022, the production from the producing assets rose to 4.26 Million Metric Tonne of Oil Equivalent (MMToe), registering a 9.8% growth over FY2021. However, increasing presence in the upstream sector exposes the company to geological, technological and execution risks that are inherent in E&P activities.

Environmental and Social Risks

IOC is exposed to the risks arising from the tightening regulations on the environment and the safety front. However, IOC has been compliant with all the environmental regulations, resulting in IOC's ability to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. Nonetheless, IOC remains exposed to the longer-term risk of the ongoing shift towards a future that is less dependent on fossil fuels. But this is a risk that will play out only over the distant future as India remains heavily dependent on oil and gas imports. IOC's ability to adapt its business model, including diversification into new segments, would be a key rating driver from a longer-term credit perspective.

Liquidity position: Adequate

IOCL had cash and bank balance of Rs. 1176.6 crore along with investments of ~Rs. 8,013 crore (including the current investments under GOI oil bonds) as on March 31, 2022. The company enjoys strong access to capital markets and high financial flexibility due to sovereign ownership. Besides, the company has investments in equity shares in ONGC, GAIL, Oil India with aggregate current market value of around Rs. 14,500 crore as on September 25, 2022, which also provide financial flexibility and support liquidity of the company.

Rating sensitivities

Positive factors – NA

Negative factors – Weakening linkage with the GoI would be a negative trigger for IOC's rating. Materially large debt funded capex/acquisition resulting in the deterioration in the credit profile, or material increase in the net under-recoveries in a scenario of elevated crude oil prices or change in the under-recovery mechanism/pricing regime and delay in the under-recovery payout by the GoI, can exert pressure on IOC's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Oil & Gas - Downstream Rating Approach - Implicit parent or group support

Parent/Group support	ICRA has factored in the support from the GoI as parent given the 51.50% ownership in IOC and strategic importance of the company in ensuring energy safety of the country
Consolidation/Standalone	ICRA has considered the consolidated financials of the entity for arriving at the ratings

About the company

IOC is currently the largest corporate entity in India by sales. Government of India has 51.5% equity stake in the company. The company and its subsidiaries have a total refining capacity of 80.6 MMTPA, which is 32% (as on June 30, 2022) of the total domestic refining capacity. The company accounted for 42% of the total petroleum products sold within the country in FY2022. IOC also enjoys a dominant presence in the domestic crude and product transportation business, controlling significant share in the country's total downstream pipeline capacity. The company has interests across the gas value chain as well, from LNG import terminals to city gas distribution networks (CGD). The company currently operates CGD networks in five Geographical Areas in Uttar Pradesh through Green Gas Limited (joint venture with GAIL (India) Limited); besides, the company is also implementing CGD projects across several other cities through Indian Oil-Adani Gas Private Limited - a JV with the Adani group.

Key financial indicators (audited)

IOC Consolidated	FY2021	FY2022
Operating income	363,949.7	589,335.7
PAT	20,565.5	24,491.0
OPBDIT/OI	11.5%	8.3%
PAT/OI	5.7%	4.2%
Total outside liabilities/Tangible net worth (times)	2.1	2.0
Total debt/OPBDIT (times)	2.8	2.7
Interest coverage (times)	11.5	9.0

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as of September 23, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021			Date & rating in FY2020	
					Sep 29, 2022	Aug 23, 2022	Sep 07, 2021	Oct 15, 2020	Jul 29, 2020	May 26, 2020	Feb 27, 2020	Jan 10, 2020
1	NCD Programme	Long term	14,125	14,125	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	NCD Programme	Long Term	2,500	--	[ICRA]AAA (Stable)	-	-	-	-	-	-	-
3	Commercial Paper Programme	Short term	40,000	19,410	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Commercial paper programme	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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE242A14WX9	Commercial Paper	Aug 11, 2022	5.7%	Sep 28, 2022	1500	[ICRA]A1+
INE242A14WY7	Commercial Paper	Aug 12, 2022	5.7%	Sep 30, 2022	1500	[ICRA]A1+
INE242A14WZ4	Commercial Paper	Aug 12, 2022	5.8%	Oct 10, 2022	2350	[ICRA]A1+
INE242A14XA5	Commercial Paper	Aug 17, 2022	5.8%	Oct 14, 2022	1860	[ICRA]A1+
INE242A14XB3	Commercial Paper	Aug 17, 2022	5.8%	Oct 17, 2022	1500	[ICRA]A1+
INE242A14XC1	Commercial Paper	Aug 26, 2022	5.8%	Oct 25, 2022	2000	[ICRA]A1+
INE242A14XD9	Commercial Paper	Aug 26, 2022	5.8%	Oct 27, 2022	750	[ICRA]A1+
INE242A14XD9	Commercial Paper	Aug 29, 2022	5.8%	Oct 27, 2022	1350	[ICRA]A1+
INE242A14XE7	Commercial Paper	Aug 30, 2022	5.8%	Nov 09, 2022	800	[ICRA]A1+
INE242A14XF4	Commercial Paper	Sep 09, 2022	5.8%	Nov 11, 2022	1500	[ICRA]A1+
INE242A14XH0	Commercial Paper	Sep 12, 2022	5.9%	Nov 17, 2022	2200	[ICRA]A1+
INE242A14XG2	Commercial Paper	Sep 12, 2022	5.9%	Nov 24, 2022	1400	[ICRA]A1+
INE242A14XG2	Commercial Paper	Sep 13, 2022	5.9%	Nov 24, 2022	700	[ICRA]A1+
Unplaced	Commercial Paper	-	-	-	20590	[ICRA]A1+
INE242A08445	NCD	Jan 14, 2020	6.44%	Apr 2023	2000	[ICRA]AAA (Stable)
INE242A08452	NCD	Mar 6, 2020	6.39%	Mar 6, 2025	3000*	[ICRA]AAA (Stable)
INE242A08460	NCD	May 27, 2020	5.05%	Nov 25, 2022	3000	[ICRA]AAA (Stable)
INE242A08478	NCD	Aug 3, 2020	5.40%	Apr 2025	1,625	[ICRA]AAA (Stable)
INE242A08486	NCD	Oct 20, 2020	5.50%	Oct 2025	2,000	[ICRA]AAA (Stable)
INE242A08536	NCD	Sep 06, 2022	7.14%	Sep 2027	2,500	[ICRA]AAA (Stable)
Unplaced	NCD	-	-	-	2,500	[ICRA]AAA (Stable)

Source: Company

**Issued amount Rs. 2,995 crore*

Annexure II: List of entities considered for consolidated analysis

Company Name	IOCL Ownership	Consolidation Approach
Chennai Petroleum Corporation Limited	51.89%	Full Consolidation
IndianOil (Mauritius) Limited	100.00%	Full Consolidation
Lanka IOC PLC	75.12%	Full Consolidation
IOC Middle East FZE	100.00%	Full Consolidation
IOC Sweden AB	100.00%	Full Consolidation
IOCL (USA) Inc	100.00%	Full Consolidation
IndOil Global BV	100.00%	Full Consolidation

Company Name	IOCL Ownership	Consolidation Approach
IOCL Singapore PTE Limited	100.00%	Full Consolidation
Indian Oiltanking Limited	49.38%	Equity Method
Lubrizol India Private Limited	26.00%	Equity Method
Indian Oil Petronas Private Limited	50.00%	Equity Method
Green Gas Limited	49.98%	Equity Method
Indian Oil Skytanking Private Limited	50.00%	Equity Method
Suntera Nigeria 205 Limited	25.00%	Equity Method
Delhi Aviation Fuel Facility Private Limited	37.00%	Equity Method
Indian Synthetic Rubber Private Limited	50.00%	Equity Method
NPCIL-Indian Oil Nuclear Energy Corporation Limited	26.00%	Equity Method
GSPL India Transco Limited	26.00%	Equity Method
Indradhanush Gas Grid Limited	20.00%	Equity Method
GSPL India Gasnet Limited	26.00%	Equity Method
IndianOil Adani Gas Private Limited	50.00%	Equity Method
Mumbai Aviation Fuel Farm Facility Private limited	25.00%	Equity Method
Kochi Salem Pipelines Private Limited	50.00%	Equity Method
Indian Oil LNG Private Limited	45.00%	Equity Method
Hindustan Urvarak & Rasayan Limited	29.67%	Equity Method
Ratnagiri Refinery & Petrochemicals Limited	50.00%	Equity Method
Avi-Oil India Private Limited	25.00%	Equity Method
Petronet VK limited	50.00%	Equity Method
Petronet LNG Limited	12.50%	Equity Method
Petronet India Limited	18.00%	Equity Method
Indian Oil Total Limited	50.00%	Equity Method
IHB Limited	50.00%	Equity Method
IOC Phinergy Private Limited	50.00%	Equity Method
Paradeep Plastic Park Limited	49.00%	Equity Method

Source: IOCL annual report FY2022

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Manish Dwivedi
+91 124 4545 814
manish.dwivedi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.