March 14, 2023 (Revised)

Bharat Petroleum Corporation Limited: Rating assigned at [ICRA]AAA (Stable)

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	2,440.00	[ICRA]AAA (Stable); assigned
Total	**2,440.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating factors in the strategic importance of Bharat Petroleum Corporation Limited (BPCL) in the domestic energy sector, the high financial flexibility arising from its large sovereign ownership (52.98% stake owned by the GoI), and a significant portfolio of liquid investments, including GoI bonds and investments in Oil India Limited and Cochin International Airport Limited. The rating also factors in BPCL's well-known brand name and its established position in the domestic oil marketing business with sales of over 42.51 MMT and a market share of ~25% in FY2022. The rating takes into account the diversified location of the company's refineries, translating into sizeable capacities, and ~14% share in the domestic refining sector as on December 31, 2022.

The gross refining margins (GRMs) of domestic refiners, including BPCL, improved in FY2022 and continued to be strong in the current fiscal as the crack spreads of most products improved on account of rising demand. While the GRMs have moderated to some extent, the profit generation for the current fiscal is likely to remain healthy for the refining segment. The marketing margins, however, have remained depressed in the last few quarters as crude prices remained elevated and auto fuel retail prices did not increase commensurately. Thus, the company reported significant operating losses, offsetting the benefit from higher GRMs during the period. While the margins are expected to recover going forward, the full-year profit margins are expected to be dragged down by the pressure on marketing margins.

The rating also factors in the vulnerability of the company's profitability to the global refining margin cycle, import duty protection and INR-USD parity levels. BPCL 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 a credit perspective. Any adverse change in the GoI's policy in this regard, resulting in a sustained weakening of the key credit metrics of BPCL, will be a key rating sensitivity. Moreover, given the elevated crude prices, the working capital requirement of the OMCs are expected to remain high. The GoI has approved a one-time grant of Rs. 5,582 crore to compensate the under-recoveries incurred by BPCL on the sale of domestic LPG during financial year 2021-22 and H1 FY2023.

BPCL is exposed to project implementation risks as it is implementing large-scale projects spanning the entire downstream value chain as well as through subsidiaries and joint ventures (JVs). On a consolidated basis, BPCL is expected to incur around Rs. 10,000-12,000 crore in FY2023 and similar amounts, going forward, per year.

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

Key rating drivers and their description

Credit strengths

Strategic importance to GoI in domestic energy sector- - The GoI has provided dedicated support to cushion the OMCs from high under-recoveries in the past by institutionalising a subsidy-sharing framework, wherein it bears a large part of the under-recoveries through budgetary allocation. The GoI has approved a one-time grant of Rs. 5,582 crore to compensate for the under-recoveries incurred by BPCL on the sale of domestic LPG during financial year 2021-22 and H1 FY2023. The company holds significant strategic importance for the 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).

Established position in domestic refining and marketing business- The company is one of the three leading public OMCs, with a ~25% market share (including private players) as of FY2022. BPCL also has the third-largest refining capacity, comprising ~14.13% of India's total refining capacity.

Diversified location base of the refineries- The company is a large downstream player with a refining capacity of 35.3 MMTPA (consolidated), making it the third largest in terms of refining capacity in the country. The company owns and operates three refineries at Mumbai, Bina and Kochi and these refineries are strategically located to give it logistical advantages.

Considerable liquidity and financial flexibility derived from investment portfolio and significant sovereign ownership- BPCL continues to enjoy high financial flexibility that has enabled it to borrow from the domestic and overseas banking system and the capital markets at competitive rates to fund its large working capital requirements and for project finance. The same is supported by BPCL's strong parentage with the GoI's 52.98% stake. Besides, the company has investments in the equity shares of Oil India and Cochin International Airport Limited with an aggregate current market value of around Rs. ~963.7 crore as on February 22, 2023, which also provide financial flexibility and support the company's liquidity.

Credit challenges

Vulnerability of profitability to global refining margin cycle, import duty protection and INR-USD parity levels - Given the nature of its business, the company would remain exposed to the movements in the commodity price cycle and the volatility in crude prices. Any adverse changes in the import duty on its products would also have an impact on the company's profitability on domestic sales. BPCL's profitability is also exposed to forex rates (INR-$) as its business is primarily conducted on dollar terms, crude procurement and forex loans owing to the time difference in the pass-through of fluctuations. Further, the marketing margins are subject to the company's ability to pass on escalations in prices of auto fuels like motor spirit (MS) and high-speed diesel (HSD) to consumers, which may not always be possible as witnessed in recent periods. Due to depressed marketing margins, the company reported a net loss of ~Rs. 4,739 crore at the consolidated level in 9M FY2023 despite higher GRMs.

Significant capex planned in medium term - The company is undertaking aggressive capex plans worth ~ Rs. 10,000-12,000 crore in FY2023 and similar capex is likely to continue in the medium term. BPCL's capex plans include expansion of marketing infrastructure, expansion of its pipeline network, equity contribution for projects under JVs and subsidiaries and foray into petrochemicals. The company also plans to enter renewable power projects as part of its long-term plans. Any further material time or cost overruns in the Group projects could increase the company's borrowing levels and weaken the credit metrics.

Exposed to regulatory risks related to under-recoveries in an elevated crude oil price environment - Higher crude oil prices had led to a material increase in gross under-recoveries (GURs) and consequently resulted in elevated working capital requirements and short-term debt levels of OMCs, thereby negatively impacting their profitability. ICRA expects the gross under-recovery (GUR) of 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 had intervened in the pricing of MS and HSD, which negatively impacted the marketing profitability of the OMCs, as has been the case presently. Accordingly, there remains regulatory risks related to the pricing of sensitive petroleum products and auto fuels 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 a credit perspective. Any adverse change in the GoI's policy in this regard, resulting in a sustained weakening of the key credit metrics of BPCL, will be a key rating sensitivity.

Environment & Social Risks

BPCL is exposed to the risks of tightening regulations on environment and safety. However, BPCL has been compliant with the environmental regulations, as per its FY2022 annual report, enabling it to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. Nonetheless, BPCL 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. BPCL'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: Strong

BPCL had a cash balance of Rs. ~2,159 crore along with investments of ~Rs. 4,442 crore (including current investments under GOI oil bonds) as on March 31, 2022. The company has strong access to the capital markets and high financial flexibility due to its sovereign ownership. Besides, the company has investments in the equity shares of Oil India and Cochin International Airport Limited, which also provide financial flexibility and support the company's liquidity.

Rating sensitivities

Positive factors – NA

Negative factors – Weakening linkage with the GoI would be a negative trigger for BPCL's rating. A materially large debt-funded capex/acquisition resulting in a deterioration in the credit profile, or a material increase in the net under-recoveries due to changes in Government policies on pricing/subsidy sharing on sensitive petroleum products, exerting pressure on BPCL's profitability and cash flows can exert pressure on BPCL'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 52.98% ownership in BPCL 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

BPCL, a GoI undertaking (52.98% holding as on March 31, 2022) and a Fortune 500 company, was originally incorporated as Bharat-Shell Refineries Limited (BSRL) on November 03, 1952, by Shell Petroleum Company Limited, and subsequently in 1977, the name was changed to BPCL. BPCL is an integrated oil refining and marketing company. It is India's third-largest oil refining company, with a total refining capacity of 35.30 MMT (including the Bina Refinery), representing around 14.13% of India's total refining capacity. It is India's second-largest OMC, with a domestic sales volume of over 42 MMT in FY2022. With around 20,063 retail outlets as on March 31, 2022, BPCL has the second-largest marketing set up in the country for the sale of petroleum products. BPCL, through its wholly-owned subsidiary BPRL, has participating interest (PI) in 20 blocks spread across seven countries. Apart from stakes in nine blocks in India, BPRL also has PI in eight blocks in Mozambique, Brazil, Indonesia, East Timor, Australia, and Abu Dhabi.

Key financial indicators (audited)

DAL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	230,170	346,791
PAT (Rs. crore)	17,645	10,145
OPBDIT/OI (%)	9.3%	5.8%
PAT/OI (%)	7.7%	2.9%
Total outside liabilities/Tangible net worth (times)	2.0	2.6
Total debt/OPBDIT (times)#	2.5	3.2
Interest coverage (times)	10.8	7.7

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 (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					March 14, 2023	-	-	-
1	NCD	Long-term	2,440.00	2,440.00	[ICRA]AAA (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	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: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE322J08024	NCD	13-Jul-20	5.85%	13-Jul-23	600.00	[ICRA]AAA (Stable)
INE322J08032	NCD	16-Dec-20	5.75%	15-Dec-23	840.00	[ICRA]AAA (Stable)
INE322J08040	NCD	26-Oct-21	6.27%	26-Oct-26	1000.00	[ICRA]AAA (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	BPCL Ownership	Consolidation Approach
Bharat Gas Resources Ltd	100.00	Full**
Bharat Oman Refineries Ltd	100.00	Full*
Bharat PetroResources JPDA Ltd	100.00	Full
Bharat PetroResources Ltd	100.00	Full
Bharat Renewable Energy Ltd	33.33	Proportionate
Bharat Stars Services Pvt Ltd	50.00	Proportionate
BPCL-KIAL Fuel Farm Pvt Ltd	74.00	Proportionate
BPRL International BV	100.00	Full
BPRL International Singapore Pte Ltd	100.00	Full
BPRL International Ventures BV	100.00	Full
BPRL Ventures BV	100.00	Full
BPRL Ventures Indonesia BV	100.00	Full
BPRL Ventures Mozambique BV	100.00	Full
Central UP Gas Ltd	25.00	Proportionate
Delhi Aviation Fuel Facility Pvt Ltd	37.00	Proportionate
Falcon Oil & Gas BV	30.00	Proportionate
FINO Paytech Ltd	20.73	Financial investment
Goa Natural Gas Pvt Ltd	50.00	Proportionate
GSPL India Gasnet Ltd	11.00	Financial investment
GSPL India Transco Ltd	11.00	Financial investment
Haridwar Natural Gas Pvt Ltd	50.00	Proportionate
IBV (Brasil) Petroleo Ltda	50.00	Proportionate
IHB Ltd	25.00	Proportionate
Indraprastha Gas Ltd	22.50	Financial investment
JSC Vankorneft	7.89	Financial investment
Kannur International Airport Ltd	16.20	Financial investment
Kochi Salem Pipeline Pvt Ltd	50.00	Proportionate
LLC TYNGD	9.87	Financial investment
Maharashtra Natural Gas Ltd	22.50	Proportionate
Matrix Bharat Pte Ltd	50.00	Proportionate
Mozambique LNG 1 Company Pte Ltd	10.00	Financial investment
Mozambique LNG1 Holding Co Ltd	10.00	Financial investment
Mozambique LNG1 Financing Company Ltd	10.00	Financial investment
Mozambique LNG1 Financing Company LDA	10.00	Financial investment
Mumbai Aviation Fuel Farm Facility Pvt Ltd	25.00	Proportionate
Petronet CI Ltd	11.00	Financial investment
Petronet India Ltd	16.00	Financial investment
Petronet LNG Ltd	12.50	Financial investment
Ratnagiri Refinery & Petrochemicals Ltd	25.00	Proportionate

Sabarmati Gas Ltd	49.94	Proportionate
Taas India Pte Ltd	33.00	Proportionate
Urja Bharat Pte Ltd	50.00	Proportionate
Vankor India Pte Ltd	33.00	Proportionate

**100% subsidiary of BPCL for FY22, BORL has been merged with BPCL effective July 01, 2022*
***100% subsidiary of BPCL for FY22, BGRL has been merged with BPCL effective August 16, 2022*

Corrigendum:

Document dated March 14, 2023 has been corrected with revisions as detailed below:

Revisions on page number 5 under “Complexity level of the rated instrument”. “Complexity Indicator” of NCD revised to Simple from Very Simple.

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