April 28, 2023

Hindustan Petroleum Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term non-convertible debenture programme^	19,500.00	19,500.00	[ICRA]AAA(Stable) reaffirmed
Long-term non-convertible debenture programme	3000.00	0.00	[ICRA]AAA(Stable); reaffirmed and withdrawn
Short-term: Commercial paper	25,000.00	25,000.00	[ICRA]A1+; reaffirmed
Issuer rating	-	-	[ICRA]AAA(Stable); reaffirmed
Long-term: Fund-based limits	18,190.00	20,190.00	[ICRA]AAA(Stable); reaffirmed
Short-term: Non-fund based limits	1,500.00	1,500.00	[ICRA]A1+; reaffirmed
Unallocated limits	25,310.00	23,310.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	**92,500.00**	**89,500.00**	

**Instrument details are provided in Annexure-I*

^Rs. 100 crore of proposed NCD Interchangeable with long-term bank facilities

Rationale

The reaffirmation of the ratings considers the strategic importance of Hindustan Petroleum Corporation Limited (HPCL/the company) in the domestic energy sector, its strong parent (Oil and Natural Gas Corporation Limited, or ONGC; rated ([ICRA]AAA (Stable)/[ICRA]A1+), its established brand name and leading position in the domestic oil marketing business. The ratings favourably consider the proximity of the company's refineries to the coast, which provides logistical advantage in importing crude oil and exporting petroleum products.

The ratings also factor in the company's strong operational efficiencies with both its refineries (Mumbai and Visakhapatnam) operating at consistently high utilisation levels. The company completed the capacity expansion of its Mumbai refinery in FY2022. Further, the production from the additional capacity of Visakh refinery is likely to commence in Q1 FY2024, while the residue upgradation project is expected to be completed in the current fiscal, which is likely to improve the profitability of the refining operations.

The crude throughput had declined in FY2022 owing to fire in one of the crude distillation units at the Visakh refinery and the scheduled shutdown of the Mumbai refinery for capacity expansion. Nevertheless, the gross refining margins (GRMs) of domestic refiners, including HPCL, increased in FY2022 as the crack spreads of most products improved on account of rising demand and inventory gains. However, in H1 FY2023, the company reported significant operating losses due to pressure on the marketing margin, offsetting the benefit from higher GRMs during the period. While going forward some recovery in margins is expected, the full-year profit margins are expected to be dragged down by pressure on marketing margins in H1 FY2023.

HPCL's operations are subject to the regulatory risks pertaining to the pricing of sensitive petroleum products. Nonetheless, over the last few years, the Government of India (GoI) has been ensuring that the net under-recoveries borne by public sector oil marketing companies (OMCs) are either nil or within manageable levels by absorbing most of the gross under-recoveries

(GURs) and sharing the remaining with upstream companies. The GoI approved a one-time grant of Rs. 5,617 crore to compensate the under-recoveries incurred by HPCL on the sale of domestic LPG during FY2021-22 and H1 FY2023. Any adverse change in the GoI's policy in this regard that weakens HPCL's key credit metrics will be a key rating sensitivity. Moreover, given the elevated crude prices, the working capital requirement of the OMCs is expected to remain high.

HPCL is exposed to project execution risks as it is implementing large-scale projects spanning the entire downstream value chain as well as through subsidiaries and joint ventures (JVs). There has been a substantial revision in the capex for HPCL's Rajasthan refinery project which is being implemented in a JV with the Rajasthan government. HPCL has a 74% stake in the project and the equity investment will be significantly higher than envisaged earlier. Accordingly, the debt coverage metrics might moderate over the next three to four years. Nonetheless, any further material time or cost overruns that could lead to larger-than-estimated funding requirements would be a key rating sensitivity.

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

ICRA has reaffirmed and withdrawn the rating of [ICRA] AAA (Stable) on the Rs. 3000 crore non-convertible debentures (NCDs) (ISIN - INE094A08044) of HPCL. These instruments were fully redeemed and there is no amount outstanding against this rated instruments. The rating was withdrawn in accordance with the policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

GoI support to ensure profitability of OMCs - The GoI 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. 5617 crore to compensate under-recoveries incurred by HPCL on sale of domestic LPG during financial year 2021-22 and H1 FY2023. Despite the switch in ownership to ONGC, ICRA believes HPCL will continue to be of strategic importance to the GoI as it will play a key role in fulfilling its socio-economic policies. Any adverse changes in the GoI's policy in this regard will be a key rating sensitivity.

Coastal refinery provides logistical advantages - HPCL owns and operates two refineries, one in Mumbai and the other in Visakhapatnam (Andhra Pradesh). As both the refineries are in the coastal region, the company enjoys logistical benefits of lower costs and lesser time taken to transport the imported crude to the refineries and export the refined products. This lowers its inventory holdings to a significant extent compared to other OMCs with inland refineries.

Established position in domestic marketing business - The company is one of the three leading public OMCs, with an ~18% market share (including private players) as of FY2022. HPCL has the second-largest marketing network across the country and undertakes multiple branding and customer loyalty initiatives.

Healthy refining operations - HPCL has reported refinery utilisation levels of above 100% over the past few years. The capacity utilisation declined in FY2022 due to fire in one of the crude distillation units at the Visakh refinery and shutdown of the Mumbai refinery for capacity expansion. The GRM stood at $7.2/bbl in FY2022 and improved to $11.4/bbl[1] in 9M FY2023 as the crack spreads of most products improved on account of increasing demand and inventory gains. However, the company's profit margins are adversely impacted in H1 FY2023 due to the pressure on marketing margins, which offsets any benefit from higher GRMs during the period. Going forward, with the completion of the Visakh capacity expansion and residue upgradation project, the scale and cash flows are expected to improve.

[1] *Before factoring the impact of Special Additional Excise Duty and Road & Infrastructure Cess levied on export of select petroleum products*

Healthy financial flexibility - The company enjoys high financial flexibility that allows it to raise debt and access the capital markets at competitive rates to fund its capex and working capital requirements. The flexibility is supported by HPCL's strong parent - ONGC – that owns a 54.9% stake in the company.

Credit challenges

Vulnerability of refining segment's profitability to global refining margin cycle, crude price volatility, import duty protection, and INR-$ 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. HPCL'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 timing differences in 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 MS (Motor Spirit) and HSD (High Speed Diesel) to consumers, which may not be always possible as witnessed in recent periods. Due to the depressed marketing margins, H1 FY2023 has reported a net loss of ~Rs. 12455 crore at consolidated level, despite higher GRMs.

Moderate financial profile - HPCL's key credit metrics, such as total debt/OPBDITA, interest coverage and Return on Capital Employed (RoCE), have remained moderate following the increased debt level. The credit metrics are expected to remain under pressure with a large capital outlay for the ongoing projects and would not see any meaningful improvement till the investments start yielding returns.

Significant capex planned in medium term - The company is undertaking aggressive capex plans worth ~Rs. 11,000 crore in FY2024, which include the implementation of major projects such as capacity expansion at existing refineries, expansion of its pipeline network, equity contribution for projects under JVs and subsidiaries and foray into petrochemicals. Production from the additional capacity of Vizag refinery is likely to commence in Q1 FY2024, and the Rajasthan refinery (under JV) is expected to be completed by Q1 FY2025. There has been a substantial revision in the capex for the Rajasthan refinery and the equity investment will be much higher than envisaged earlier. Any further material time or cost overruns in the Group projects could increase the company's borrowing levels and weaken the credit metrics.

Lack of freedom in pricing sensitive petroleum products - While the prices of motor spirit (MS) and high-speed diesel (HSD) are deregulated, PSU OMCs at times face the pressure of revising the prices, in line with the global rates. Moreover, the price of LPG (domestic) is controlled, on which the GoI pays subsidy to cover the under-recoveries. Though the GoI has been ensuring that the net under-recoveries of OMCs are either nil or within manageable levels, any increase in the same in a scenario of high crude oil prices would impact the company's key credit metrics. In March 2020, the GoI instructed the state-run oil companies to price the public distribution system (PDS) and the superior kerosene oil (SKO) at market rates, following the moderation in crude prices. In FY2022 and FY2023, some budgetary support was provided to HPCL for the marginal gross under-recoveries.

Environmental and Social Risks

HPCL is exposed to the risks of tightening regulations on environment and safety. However, it has been compliant with the environmental regulations as per its FY2021-22 annual report, enabling it to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. Nonetheless, HPCL 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. HPCL'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

HPCL's liquidity is expected to remain strong, aided by sizeable cash and cash equivalents of ~Rs. 5,419 crore on the consolidated books as on September 30, 2022 with adequate fund-based and non-fund based working capital limits, a sizeable part of which is unutilised. It also enjoys high financial flexibility owing to its strong parent.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Downward pressure on HPCL's ratings could arise if there is a significant increase in the net under-recoveries due to changes in Government policies on pricing/subsidy sharing on sensitive petroleum products, eroding the company's profits and cash flows. The rating may also be affected if ONGC's shareholding falls below 50%.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Downstream Oil Companies
Parent/Group support	Parent: Oil and Natural Gas Corporation Limited While, the parent of HPCL is ONGC Limited, which holds majority shareholding in HPCL, the assigned rating factors in the systemic importance that HPCL holds to the Government of India, which ICRA expects should induce the GOI to directly or through ONGC extend timely financial support to the rated entity, should there be a need
Consolidation/Standalone	For arriving at the ratings, ICRA considered the consolidated financials of HPCL. The subsidiaries and JVs of HPCL that have been considered are enlisted in Annexure 2.

About the company

HPCL is a public sector enterprise that owns and operates two refineries, one in Mumbai with a production capacity of 9.5 million metric tonnes per annum (MMTPA) and one in Visakhapatnam with a production capacity of 8.3 MMTPA. The company was incorporated in 1952 as Standard Vacuum Refining Company of India Limited. HPCL has a 49% stake in a JV with Mittal Energy Investments Pte Limited for operating an 11.3-MMTPA refinery in Bhatinda (Punjab). HPCL has a 16.95% equity stake in Mangalore Refinery and Petrochemicals Ltd. (MRPL), which operates a 15-MMTPA refinery in Mangalore (Karnataka). The company is setting up a 9-MMTPA greenfield refinery-cum-petrochemical complex at Pachpadra (Rajasthan) through HPCL Rajasthan Refinery Limited (HRRL) with an equity stake of 74%. ONGC holds a majority shareholding in HPCL, which it acquired from the GoI in January 2018. In October 2019, the company was granted a Maharatna status, which implies higher operational and financial autonomy.

Key financial indicators (audited)

HPCL Consolidated	FY2021	FY2022	9MFY2023
Operating income	233,248	349,913	332,653
PAT *	10,524	5,836	-12,300
OPBDIT/OI	6.9%	2.9%	-3.7%
PAT/OI	4.5%	1.7%	-3.7%
Total outside liabilities/Tangible net worth (times)	2.5	2.7	-
Total debt/OPBDIT (times)	2.7	4.7	-
Interest coverage (times)	16.6	10.3	NM^

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
**Excluding profit/loss of joint ventures/associates, ^Not meaningful*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on March 6, 2023 (Rs. crore)	Current rating (FY2024)	Chronology of rating history for the past 3 years								
						Date & rating in FY2023					Date & rating in FY2022		Date & rating in FY2021	
					April 28, 2023	March 16, 2023	Dec 09, 2022	Sep 02, 2022	Aug 05, 2022	Jun 03, 2022	Feb 22, 2022	Aug 31, 2021	Jan 7, 2021	Jul 23, 2020
1	NCDs*	Long term	10,000.00	9,950.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[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	NCDs	Long term	4,500.00	4,500.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	NCDs	Long term	3,000.00	0.00	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	NCDs	Long term	4,900.00	4,900.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-
4	NCDs^	Long term	100.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-
5	Commercial paper	Short term	25,000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Cash credit	Long term	-	-	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
7	Fund-based limits	Long term	20,190.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
8	Non-fund based limits	Short term	1,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Unallocated limits	Long-term/ Short-term	23,310.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-
10	Issuer rating	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

**Remaining NCDs yet to be placed*

^Rs. 100 proposed NCD are Interchangeable with long-term bank facilities,

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture Programme	Simple
Commercial Paper	Very Simple
Issuer Rating	NA
Fund-based Limits	Simple
Non-fund Based Limits	Very simple
Unallocated Limits	NA

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Long-term Fund Based Limits**	-	-	-	20,190.0	[ICRA]AAA (Stable)
NA	**Short-term Non-fund Based limits**	-	-	-	1,500.0	[ICRA]A1+
NA	**Unallocated Limits**	-	-	-	23,310.0	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	**NCDs***	Yet to be placed	-	-	150.0	[ICRA]AAA (Stable)
INE094A08028	**NCDs**	April 2019	8.00%	April 2024	500	[ICRA]AAA (Stable)
INE094A08036	**NCDs**	August 2019	7.00%	August 2024	2,000	[ICRA]AAA (Stable)
INE094A08044	**NCDs**	October 2019	6.80%	December 2022	3,000	[ICRA]AAA (Stable); withdrawn
INE094A08051	**NCDs**	January 2020	6.38%	April 2023	600	[ICRA]AAA (Stable)
INE094A08069	**NCDs**	March 2020	7.03%	April 2030	1,400	[ICRA]AAA (Stable)
INE094A08077	**NCDs**	August 2020	5.36%	April 2025	1,200	[ICRA]AAA (Stable)
INE094A08085	**NCDs**	October 2020	4.79%	October 2023	2,000	[ICRA]AAA (Stable)
INE094A08093	**NCDs**	May 2021	6.63%	April 2031	1,950	[ICRA]AAA (Stable)
INE094A08101	**NCDs**	February 2022	6.09%	February 2027	1,500	[ICRA]AAA (Stable)
INE094A08119	**NCDs**	June 2022	7.81%	April 2032	1,500	[ICRA]AAA (Stable)
INE094A08127	**NCDs**	July 2022	7.12%	July 2025	1,800	[ICRA]AAA (Stable)
INE094A08135	**NCDs**	November 2022	7.64%	November 2027	2,500	[ICRA]AAA (Stable)
INE094A08143	**NCDs**	December 2022	7.54%	April 2033	750	[ICRA]AAA (Stable)
INE094A08150	**NCDs**	March 2023	7.74%	March 2028	1650	[ICRA]AAA (Stable)
NA	**Commercial Paper**	Yet to be placed	-	-	25,000.00	[ICRA]A1+
NA	**Issuer Rating**	-	-	-	-	[ICRA]AAA (Stable)

Source: Company

**Includes Proposed NCDs of Rs. 100 crore interchangeable with proposed long-term bank facilities*

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Company Name	HPCL Ownership	Consolidation Approach
Prize Petroleum Co. Ltd.	100.00%	Full Consolidation
HPCL Biofuels Ltd.	100.00%	Full Consolidation
HPCL Middle East FZCO	100.00%	Full Consolidation
HPCL LNG Limited (Formerly known as HPCL Shapoorji Energy Private Limited)	100.00%	Full Consolidation
HPCL Rajasthan Refinery Limited	74.00%	Full Consolidation
Ratnagiri Refinery and Petrochemicals Limited	25.00%	Limited Consolidation

Company Name	HPCL Ownership	Consolidation Approach
HPCL - Mittal Energy Ltd.	48.99%	Full Consolidation
Bhagyanagar Gas Ltd.	48.73%	Limited Consolidation
Aavantika Gas Ltd.	49.99%	Limited Consolidation
IHB Limited.	25.00%	Limited Consolidation
Petronet MHB Ltd.	50.00%	Limited Consolidation
Godavari Gas Private Ltd.	26.00%	Limited Consolidation
Hindustan Colas Pvt. Ltd.	50.00%	Limited Consolidation
South Asia LPG Co. Pvt. Ltd.	50.00%	Limited Consolidation
Mumbai Aviation Fuel Farm Facility Pvt. Ltd.	25.00%	Limited Consolidation
HPOIL Gas Pvt. Ltd.	50.00%	Limited Consolidation
Mangalore Refinery and Petrochemicals Limited	16.96%	Limited Consolidation
GSPL India Gasnet Limited	11.00%	Limited Consolidation
GSPL India Transco Limited	11.00%	Limited Consolidation
Petronet India Limited	16.00%	Limited Consolidation

Source: Company

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About ICRA Limited:

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