

September 19, 2023

Chennai Petroleum Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	1,000.0	1,000.0	[ICRA]AAA(Stable) reaffirmed
Non-Convertible Debenture Programme	1,000.0	1,000.0	[ICRA]AAA(Stable) reaffirmed
Commercial Paper	7,500.0	7,500.0	[ICRA]A1+ reaffirmed
Total	9,500.0	9,500.0	

*Instrument details are provided in Annexure-I

Rationale

The ratings reflect the majority ownership (51.9%) of Indian Oil Corporation Limited (IOCL; rated [ICRA]AAA(Stable)/[ICRA]A1+) in Chennai Petroleum Corporation Limited (CPCL) and the strong business linkages between them, particularly for sourcing imported crude oil and product offtake. ICRA believes IOCL would support CPCL to meet its financial obligations, should the need arise. CPCL remains strategically important to IOCL as the latter meets its product requirement for the South Indian market from the former. The ratings also reflect CPCL's established position in the refining business and its strong operational efficiencies operating at high utilisation levels with crude throughput of 11.3 MMT in FY2023 (9.0 MMT in FY2022) against a nameplate capacity of 10.5 MMTPA. Further, the high GRMs in Q1 FY2023 and Q4 FY2023, driven by healthy crack spreads and discount on Russian crude oil supported strong gross refining margins (GRM) of \$11.9 per bbl in FY2023. However, the special additional excise duty (SAED) imposed by Government of India (GoI) and moderation in the realised product crack spreads in Q2 FY2023 and Q3 FY2023 moderated the GRMs to an extent. The strong GRM resulted in healthy cash generation, thereby reducing the working capital borrowing and improving the credit metrics in FY2023. The company reported a GRM of \$8.3/bbl in Q1FY2024. Going forward, in line with moderation in the product spread in the international market, the company's GRMs are likely to moderate from the FY2023 levels but will continue to be healthy.

The ratings, however, also consider the vulnerability of the company's profitability to the global refining margin cycle, import duty protection and INR-USD parity levels. The company is also exposed to project implementation risks as CPCL is in the midst of an investment/capex cycle; however, the risk is significantly mitigated by the Group's track record of implementing several large projects. The company, in a joint venture (JV) with IOCL and other seed equity investors, is setting up a 9-MMTPA refinery project at Cauvery Basin Refinery, Nagapattinam district. CPCL's equity investment based on approved project cost is estimated at ~ Rs. 2,570 crore towards its 25% contribution. Any increase in the project cost would be funded in similar ratios of Debt: Equity of 2:1. The additional equity contribution will be in the ratios of 1:1:2 of IOCL, CPCL and seed investors respectively.

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

Key rating drivers and their description

Credit strengths

Strong parentage lends flexibility - IOCL has a controlling stake in the company with a 51.9% shareholding. CPCL derives significant operational benefits as part of the IOCL Group for sourcing imported crude oil and product offtake. IOCL 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, in June 2018, with the improvement in financial performance in the preceding two fiscals,

CPCL repaid Rs. 500.0 crore of non-convertible preference shares to IOCL. ICRA believes due to CPCL's strategic position within the IOCL Group in South India, it would support CPCL to meet its financial obligations, should the need arise.

IOCL, being the largest oil refining and marketing company in India, commands considerable economic importance. IOCL 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). The IOC Group is also the largest contributor to the Government exchequer. Thus, the sovereign support is expected to continue, going forward. The IOCL Group dominates the domestic refining sector with a share of over 30%. It 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 IOCL Group has the largest marketing network spanning across the country and undertakes multiple branding and customer loyalty initiatives.

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

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

Healthy operational profile – CPCL's refinery has been operating at healthy capacity utilisation in the past. In FY2023, the company achieved its highest ever crude throughput of 11.3 MMT (9.0 MMT in FY2022) against a nameplate capacity of 10.5 MMTPA. The high throughput in FY2023 was driven by healthy demand for petroleum products.

Credit challenges

Project implementation risks partly mitigated by the long-demonstrated history of group in implementing projects - The company is setting up a 9-MMTPA refinery project at Cauvery Basin Refinery, Nagapattinam district, in a JV with parent IOCL and other seed equity investors. The approved project cost is estimated at ~ Rs. 31,580 crore which is planned to be funded in debt: equity ratio of 2:1. CPCL's equity investment based on approved project cost is estimated at ~ Rs. 2,570 crore towards its 25% contribution.

Any material time or cost overruns in the project could increase the company's equity investment and moderate the credit metrics. However, the risk is largely mitigated by the Group's proven track record of successfully implementing several large projects.

Vulnerability of profitability to global refining margin cycle, import duty protection and INR-USD parity levels – Given the nature of the business, CPCL has limited pricing flexibility and its margins are vulnerable to the movements in international crude prices and crack spreads, import duty differentials and foreign exchange rates (INR-US\$). This was reflected in FY2019 and FY2020, when the company's margins contracted because of inventory losses and weak crack spreads.

Environmental and Social Risks

CPCL is exposed to the risks of tightening regulations on environment and safety. However, it has been compliant with the environmental regulations, as per its FY2023 annual report, enabling it to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. Further, CPCL has set a goal of becoming a Net-Zero carbon emitter by 2046. Nonetheless, CPCL 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.

Liquidity position: Adequate

The company's cash flow from operations had remained strong in FY2023 and is likely to be healthy in FY2024, given the stable GRMs. CPCL has a repayment obligation of ~Rs. 50 crore in FY2024 and ~ Rs. 825 crore in FY2025 and is in the midst of an investment/capex cycle. However, the liquidity is expected to remain adequate, supported by its cash accruals, unutilised working capital limits and the ability to raise funds at a short notice for refinancing, if required, benefiting from the strong financial flexibility with lenders.

Rating sensitivities

Positive factors – Not applicable

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Oil & Gas (Downstream)
Parent/Group support	Parent – Indian Oil Corporation Limited ICRA expects CPCL's parent, IOCL, 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, 2023, the company had three joint ventures, which are all enlisted in Annexure-II.

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 US (Amoco), and the National Iranian Oil Company (NIOC), with their initial equity contributions in the venture being in a ratio of 74:13:13. In 1985, Amoco divested its equity holding in favour of the 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 IOCL as part of its efforts to insulate standalone refineries from market volatility, following the dismantling of the administered pricing mechanism (APM). As on June 30, 2023, IOCL held 51.9% equity stake in CPCL, with Naftiran Intertrade Company Limited¹ and others holding 15.4% and 32.7%, respectively. CPCL currently operates a 10.5-MMTPA refinery in Manali, near Chennai. Being a standalone refinery, CPCL's products, barring a few industrial feedstock and fuels, have always been sold by oil marketing companies. After IOCL's acquisition of a majority stake in CPCL, the bulk of the latter's output is sold through IOCL.

¹ is a subsidiary of the National Iranian Oil Company (NIOC)

Key financial indicators

CPCL Consolidated	FY2022	FY2023
Operating income	43,375.4	76,734.7
PAT	1,336.4	3,525.9
OPBDIT/OI	6.6%	8.1%
PAT/OI	3.1%	4.6%
Total outside liabilities/Tangible net worth (times)	5.9	1.8
Total debt/OPBDIT (times)	3.2	0.7
Interest coverage (times)	6.9	18.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Sep 19, 2023	Sep 20, 2022	Sep 20, 2021	Apr 16, 2021	Jun 12, 2020
1 NCD	Long-term	1000.0	810.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2 NCD	Long-term	1000.0	775.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
3 Commercial Paper	Short term	7500.0	-	[ICRA]A1+	[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 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
INE178A08029	NCD	17-Jul-2020	5.78%	17-Jul-2025	810.0	[ICRA]AAA(Stable)
INE178A08037	NCD	23-Jun-2021	5.44%	24-Jun-2024	775.0	[ICRA]AAA(Stable)
NA	NCD	Not issued	NA	NA	415.0	[ICRA]AAA(Stable)
NA	Commercial Paper	NA	NA	NA	7500.0*	[ICRA]A1+

Source: Company; * Not placed as on June 30, 2023

Annexure II: List of entities considered for consolidated analysis

Company Name	CPCL Ownership	Consolidation Approach
Indian Additives Ltd.	50.00%	Equity Method
National Aromatics and Petrochemicals Corporation Ltd.	50.00%	Equity Method
Cauvery Basin Refinery and Petrochemicals Ltd	25.00%	Equity Method

Source: Company annual report FY2023

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Branches



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