September 28, 2023 (Revised)

Indian Oil Corporation Limited: Ratings reaffirmed; reaffirmed and withdrawn for Rs 5000.0 crore NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	11,625.0	11,625.0	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture	5,000.0	0.0	[ICRA]AAA (Stable); reaffirmed and withdrawn
Commercial paper	40,000.0	40,000.0	[ICRA]A1+; reaffirmed
Total	**56,625.0**	**51,625.0**	

**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), a 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 its 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 around 32% share in the domestic refining sector. The ratings also reflect the integration of IOC's operations in marketing, pipelines and petrochemicals, 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. ICRA also notes that IOC, in a joint venture (JV) with Chennai Petroleum Corporation Limited (CPCL), is setting up a 9-MMTPA greenfield refinery project at Cauvery Basin Refinery, Nagapattinam district.

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 in ensuring 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 IOC will be a key rating sensitivity.

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.

ICRA has withdrawn the rating on Rs. 5,000 crore NCDs as the same has been paid in full.

Key rating drivers and their description

Credit strengths

Strategic importance to GoI in 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 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 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 domestic refining and marketing business - The company dominates the domestic refining sector with a share of around 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 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 of its nine refineries are located in inland areas. The most recent refinery set up on the Paradip 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 the 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, at present, the OMCs in general and IOC in particular is incurring heavy losses in the marketing segment. IOC, however, is supported by healthy GRMs and thus the refining, pipeline and petrochemical divisions 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 with the GoI holding a 51.50% stake. The company's investments in ONGC, GAIL and Oil India provide considerable financial flexibility.

Credit challenges

Vulnerability of profitability to 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 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) of the OMCs to remain nil or marginal. There have been instances in the past when in an elevated crude oil price environment, the GoI had intervened in the pricing of motor spirit (MS) and high-speed diesel (HSD) which negatively impacted the marketing profitability of the OMCs, as is also the case at present. Accordingly, regulatory risks related to the pricing of sensitive petroleum products and auto fuels remain in an elevated crude oil price environment. However, the past track record of the GoI in ensuring 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 IOCL will be a key rating sensitivity

Significant project implementation risks, partly mitigated by demonstrated history of IOC in implementing projects across refining, marketing, petrochemical and pipeline 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 over the next 4-5 years. The capex plans include the brownfield expansion of refineries, setting up of nearly 4,000 km of pipeline infrastructure, investments in setting up marketing/retail infrastructure, setting up of petrochemical plants etc. Any material time or cost overruns in the group projects could increase the company's borrowing levels and moderate the credit metrics. However, the risk is largely mitigated by the company's proven track record of successfully implementing several large projects.

Growing upstream portfolio exposes company to geological, technology and execution risks inherent in E&P activities – The company currently has an upstream portfolio of 22 blocks (domestic and overseas) and it has been actively trying to expand the same. In FY2023, production from these assets rose to 4.27 million metric tonnes of oil equivalent (MMToe), a 0.2% growth over FY2022. However, an increasing presence in the upstream sector exposes the company to geological, technological and execution risks inherent in E&P activities.

Environmental and Social Risks

IOC is exposed to the risks of tightening regulations on environment and safety. However, IOC has been compliant with all the environmental regulations, which has enabled it 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: Strong

IOCL had cash and cash equivalent of Rs. 996.4 crore along with current investments of ~Rs. 10,436.5 crore (including the current investments under GOI oil bonds) as on March 31, 2023, along with sizeable undrawn credit lines. The company enjoys 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 ONGC, GAIL, Oil India, which also provide financial flexibility and support the liquidity of the company.

Rating sensitivities

Positive factors – NA.

Negative factors – Weakening linkage with the GoI would be a negative trigger for IOC's ratings. A materially large debt-funded capex/acquisition resulting in a deterioration of the credit profile, or a material increase in the net under-recoveries in a scenario of elevated crude oil prices, or a 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 Policy on Withdrawal of Credit Ratings
Parent/Group support	ICRA has factored in the support from the GoI as the parent, given the 51.50% ownership in IOC and the 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. List of entities consolidated is enlisted in Annexure II. Further, ICRA has adjusted the financials to consider the consolidation of IOC with some of its JVs as well

About the company

IOC is currently the largest corporate entity in India by sales. The Government of India has a 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 March 31, 2023) of the total domestic refining capacity. IOC also enjoys a dominant presence in the domestic crude and product transportation business, controlling a 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 implementing CGD projects across several other cities through Indian Oil-Adani Gas Private Limited - a JV with the Adani Group.

Key financial indicators

Consolidated	FY2022	FY2023	Q1FY2024*
Operating income	589,321.2	841,755.9	198,550.8
PAT**	24,491.0	10,842.1	14,396.2
OPBDIT/OI	8.3%	4.6%	11.9%
PAT/OI	4.2%	1.3%	7.3%
Total outside liabilities/Tangible net worth (times)	2.0	2.1	-
Total debt/OPBDIT (times)	2.7	3.9	-
Interest coverage (times)	9.0	5.1	-

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, * Provisional result, **PAT is excluding the share of profit/(loss) of associates/ joint ventures*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on August 30,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		
					Sep 28, 2023	Sep 29, 2022	Aug 23, 2022	Sep 07, 2021	Oct 15, 2020	Jul 29, 2020	May 26, 2020
1	NCD programme	Long Term	11,625.0	11,625.0	[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	5,000.0	0.0	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Commercial paper programme	Short Term	40,000.0	0.0	[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: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper*	-	-	-	40,000	[ICRA]A1+
INE242A08445	NCD	Jan 14, 2020	6.44%	Apr 2023	2000	[ICRA]AAA (Stable); reaffirmed and withdrawn
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); reaffirmed and withdrawn
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)
INE242A08544	NCD	Nov 25, 2022	7.44%	Nov 25, 2027	2,500	[ICRA]AAA (Stable)

Source: Company

** Unplaced*

***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 B.V.	100.00%	Full Consolidation
IOCL Singapore Pte Limited	100.00%	Full Consolidation
Petronet LNG Limited	12.50%	Equity Method
AVI-OIL India Private Limited	25.00%	Equity Method
Petronet India Limited	18.00%	Equity Method
Petronet VK Limited	50.00%	Equity Method
IndianOil Adani Ventures Limited (formerly known as 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
IndianOil 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 IndianOil Nuclear Energy Corporation Limited	26.00%	Equity Method
GSPL India Transco Limited	26.00%	Equity Method
GSPL India Gasnet Limited	26.00%	Equity Method

Company Name	IOCL Ownership	Consolidation Approach
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
IndianOil LNG Private Limited	45.00%	Equity Method
Hindustan Urvarak and Rasayan Limited	29.67%	Equity Method
Ratnagiri Refinery & Petrochemicals Limited	50.00%	Equity Method
Indradhanush Gas Grid Limited	20.00%	Equity Method
IHB Limited	50.00%	Equity Method
IndianOil Total Private 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 FY2023

Corrigendum:

Document dated September 28, 2023 has been corrected with revision as detailed below:

Revisions on page number 3 under “Analytical approach”, policy on withdrawal of credit ratings captured.

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