

October 31, 2023

Invenire Petrodyne Limited (erstwhile Tata Petrodyne Limited): Ratings downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Term loan	-	27.54	[ICRA]A-(Stable); downgraded from [ICRA]A(Stable)
Long term - Fund based - Cash credit	-	15.00	[ICRA]A-(Stable); downgraded from [ICRA]A(Stable)
Long term/Short term - Unallocated	-	57.46	[ICRA]A-(Stable)/[ICRA]A2+; downgraded from [ICRA]A(Stable)/[ICRA]A1
Long term - Unallocated limits	70.00	-	-
Short term - Unallocated limits	30.00	-	-
Total	100.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Invenire Petrodyne Limited (IPL), its subsidiary Dian Energy B.V. and its step-down subsidiaries – Merangin B.V. and Svetah Energy Infrastructure FZE (Svetah) – due to the management, financial and operational linkages among the entities.

The downward revision in the ratings considers the expected moderation in IPL's credit profile, going forward, as the company embarks on a significant capex plan for the three oilfields awarded to the company under the third round of Discovered Small Fields (DSF) bids in September 2022. The company will be incurring Rs. 2,900-3,200 crore of capital expenditure over a period of three years, starting FY2025, to be funded by a mix of internal accruals, support from promoter entities and term loans from banks. While ICRA notes that these blocks are expected to be developed in a phased manner with cash accruals from initial wells funding the subsequent capex to minimise the reliance on external debt, further promoter loans will support the funding requirements. Nevertheless, a significant amount of external debt would be required which would keep the debt metrics subdued in the near to medium term.

The material development programme for the DSF blocks will increase the company's exposure to the risks associated with developmental oil & gas fields wherein there can be significant delays in the beginning of production and lower-than-expected production. IPL's step-down subsidiary has acquired a floating production, storage and offloading (FPSO) unit which will be deployed in the PY-3 field. The total cash outgo for the acquisition and retrofitting of the FPSO unit will be around \$55 million that will be funded by \$30 million of term loans and the remaining through unsecured, subordinated promoter loans. The FPSO will be deployed with the PY-3 field for a firm period of 5 years and extendable by another 5 years. The acquisition of the FPSO unit will also result in a moderation of the credit metrics as the debt drawdown is expected to be completed by the end of FY2024.

IPL's credit metrics are expected to improve gradually once the DSF field production starts and if it ramps up to the expected volumes in a timely manner.

ICRA also takes note of the company's continued efforts to undertake development drilling which will further support the reserve size in the near to medium term; however, the incremental additions from such measures in the near past have been lower than expectations. The company's proposed exploratory and development activities for its existing fields in India (PY-3) and Indonesia (Merangin block) will entail sizeable capex commitments, although they are expected to be funded through internal accruals.

ICRA also notes that the PY-3 redevelopment has faced inordinate delays in past. However, with the acquisition of the FPSO unit and other operational issues out of the way, the production is expected to commence from March 2024. Svetah has entered into an agreement with Hardy Exploration & Production (India) Inc (operator in PY-3 field) for the deployment of the FPSO unit in the PY-3 field. ICRA also notes that the primary term of the contract for the CB/OS – 2 block had expired in June 2023 and IPL along with ONGC and Vedanta has applied for extension by 10 years, having complied with the prerequisites and condition as per the applicable government policy for extension. IPL expects to receive interim approvals until the final approval. The timely recommencement of production in the PY-3 block, unhindered production in the CB/OS – 2 blocks until final approval and the timely operationalisation of the DSF III blocks will be the key monitorables.

The ratings continue to factor in the operational expertise brought in by the parent – Invenire Energy Private Limited (IEPL). IPL's operations remain vulnerable to the geological, technology and execution risks inherent in exploration and production (E&P) activities and its overseas expansion strategy could entail significant geological, geo-political and event risks. IPL's financial profile is also exposed to the volatility in crude oil and gas prices.

The Stable outlook reflects ICRA's opinion that the company's financial performance in the near term will benefit from favourable oil and gas prices and expected ramp-up in production of the PY-3 field.

Key rating drivers and their description

Credit strengths

Moderate experience and track record in E&P business – The parent, IEPL, has upstream oil and gas assets in South Asia and South-East Asia. The management has extensive experience of over two decades in the oil and gas upstream and midstream industry.

Upside from expected recommencement of production in PY-3 field – Production from the PY-3 field had ceased in 2011 due to commercial and procedural challenges faced by the consortium. Further, delays were faced in implementing the approved revised field development plan due to disagreements among the consortium players. However, as of now, these hurdles have been resolved and the FPSO procured by Svetah Energy Infrastructure FZE is to be deployed in the PY-3 field for recommencing production by March 2024. It has entered into an agreement with Hardy Exploration & Production (India) Inc (operator in PY-3 field) for the same. The agreement has been approved by other consortium players and the GoI. The cash accrual from this field will support planned capex in this and other fields.

Credit challenges

Execution risk for capex to be incurred for DSF fields – The development of the DSF fields would entail a capex of Rs. 2,900-3,200 crore to be incurred over FY2025-FY2027 which will be funded using a mix of promoter loan, bank loan and internal accruals. Further, the significant size of the project compared to the existing E&P asset portfolio exposes IPL to project execution risk. As the fields are under development, the company's credit profile will remain exposed to the level of actual production and the time and cost overruns.

Operational and financial risk for FPSO unit, given the lack of track record in asset ownership and operations – The IPL Group doesn't have prior experience in owning and operating an FPSO unit. While the daily operations are to be handled by an experienced contractor, it still remains exposed to operational risks. Further, timely payments from the consortium will be crucial for regular debt servicing of the FPSO unit. However, the risk is partly mitigated by healthy counterparty risk profile with ONGC holding majority participating interest in the PY-3 field.

Vulnerability of profitability to geological risk and commodity price volatility – The company's operations are exposed to the volatility in crude oil prices and the risk is aggravated by the relatively small scale of IPL's operations. Additionally, an upstream company is exposed to geological risks inherent in E&P activities.

Regulatory risks – The upstream oil & gas sector requires several government approvals. IPL operates in multi geographies, which exposes it to regulatory risks associated with the respective governments.

Liquidity position: Adequate

At a consolidated level, the company witnessed a healthy improvement in cash accruals in FY2023. The cash accruals are likely to remain healthy in the near term, aided by favourable oil and gas prices and expected increase in production volumes from the existing fields and restart of the production from the PY-3 field. This, coupled with an unencumbered cash balance of Rs. ~40 crore as on March 31, 2023, will support the company's liquidity profile. The company has adequately tied up funds for incremental cash outflow required for the retrofitting of the FPSO unit, while it is expected to tie up bank funding for the planned capex in due course of time. IPL has a repayment obligation of ~Rs. 23.9 crore in FY2024 which it is expected to service comfortably. The debt servicing for the FPSO's debt is expected to be serviced out of the cash flows of the FPSO entity comfortably, given the healthy day rates and moderate operational expenses which will ensure strong cash generation. While significant capex is expected to be incurred over FY2024-FY2025, the liquidity should remain comfortable, given the expected infusion of promoter and bank loans.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is an increase in the scale of reserves, leading to higher production and improved reserve metrics, such as reserve replacement ratio (RRR) and reserve life index (RLI)), thereby scaling up the operations. An increase in the profit margin, driven by an improved cost structure, will also be critical for an upgrade.

Negative factors – The ratings could be downgraded if there is a significant decline in crude oil prices, production volumes and profitability, leading to lower-than-anticipated cash accruals, or if a higher-than-expected debt-funded capex leads to a deterioration in the debt coverage metrics. Any pressure on liquidity due to the support extended to group companies or any significant investment can also exert pressure on the ratings. A specific credit metric that could lead to a downgrade includes an adjusted total debt/OPBDITA ratio above 2.3 times on a sustained basis where the adjusted total debt is calculated as the total debt outstanding less promoter debt as the promoter debt is subordinate to the external loans.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Upstream Oil Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings of IPL, the analysts have factored in a consolidated view of IPL, its subsidiary Dian Energy BV and its step down subsidiary Svetah Energy Infrastructure FZE given the strong operational and financial linkages amongst the entities

About the company

Invenire Petrodyne Limited (formerly Tata Petrodyne Limited), incorporated in 1993, is engaged in the exploration and production (E&P) of oil and gas. As an E&P company, IPL's business model is based on holding operating and non-operating participating interest in various oil and gas blocks in a consortium with reputed global and Indian E&P companies. At present, IPL holds interests in six oil and gas blocks in India, while its wholly-owned subsidiary viz. Dian Energy B.V. through a step-down subsidiary, Merangin B.V. all based in Netherlands, holds interest in one oil and gas block in Indonesia. Of these, three are producing blocks, viz. PY-3 (26.58% PI) and CB-OS-2 (10% PI) in India and Merangin (35.4% PI) in Indonesia. The recently awarded DSF¹ III blocks namely B66, B154, B2023 (100% PI) are expected to commence production in FY2026. Further, the

company has also been awarded a CBM block SP-ONHP(CBM)-2021/1, located in Satpura Basin, Madhya Pradesh. The test drilling is expected to be completed in FY2025 in the said block.

Svetah Energy Infrastructure FZE ("Svetah"), a free zone enterprise incorporated under the provisions of Hamriyah Free Zone, UAE, has been acquired by Dian Energy B.V. (WOS of Invenire Petrodyne Limited) in April 2023. Svetah has acquired a Floating Production Storage Offloading Unit ("FPSO") named Svetah Venetia (formerly Petrojarl Varg) in 2022. Svetah has entered into a charter hire agreement with the Operator of PY-3 Field, i.e., Hardy Exploration & Production (India) Inc (affiliate of Invenire Petrodyne Limited) for the deployment of FPSO at PY-3 Field. Charter hire rate is USD 70,500 per day for a firm duration of 5 years with the option to extend the same for another 5 years. Invenire Petrodyne Limited holds 26.58% interest in PY-3 Field along with Hardy and ONGC holding 22.79% and 50.63% respectively.

Earlier IPL was a wholly owned subsidiary of Tata Sons Limited, however, the entire stake of Tata Sons Limited in IPL had been sold to Invenire Energy Private Limited, an Upstream Oil & Gas Company backed by Private Equity.

Key financial indicators (audited)

Consolidated (IPL)	FY2022	FY2023
Operating income	325.1	356.3
PAT	103.0	95.7
OPBDIT/OI	49.9%	53.5%
PAT/OI	31.7%	26.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.9
Total debt/OPBDIT (times)	0.5	1.2
Interest coverage (times)	12.5	7.1

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Oct 8, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 31, 2023	Sep 30, 2022	Jun 22, 2021	Jun 19, 2020
1	Term loans	27.54	27.54	[ICRA]A-(Stable)	-	-	-
2	Fund-based cash credit	15.00	-	[ICRA]A-(Stable)	-	-	-
3	Unallocated	57.46	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-
4	Unallocated	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-
5	Unallocated	-	-	-	[ICRA]A1	[ICRA]A1	-
6	Non-fund based limits	-	-	-	-	-	[ICRA]A1
7	Non-fund based limits*	-	-	-	-	-	[ICRA]A (Negative)

*Sublimit of short-term non-fund based limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based - Term loan	Simple
Long term - Fund based - Cash credit	Simple
Long term/Short term - Unallocated	Not Applicable

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	Term loan	FY2024	NA	FY2026	21.12	[ICRA]A-(Stable)
NA	Term loan	FY2023	NA	FY2026	6.42	[ICRA]A-(Stable)
NA	Cash credit	NA	NA	NA	15.00	[ICRA]A-(Stable)
NA	Unallocated	NA	NA	NA	57.46	[ICRA]A-(Stable)/ [ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Invenire Petrodyne Limited	100.00% (Self)	Full Consolidation
Dian Energy B.V.*	100.00%	Full Consolidation

Source: Company annual report FY2023; *Svetah Energy Infrastructure FZE is a wholly-owned subsidiary of Dian Energy B.V.

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