

March 12, 2024

Bharat Petroleum Corporation Limited: Rating reaffirmed; reaffirmed and withdrawn for Rs. 1,440.0-crore NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	1,000.00	1,000.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures	1,440.00	0.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
Total	2,440.00	1,000.00	

*Instrument details are provided in Annexure-I

Rationale

The rating continues to factor 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 48.92 MMT and a market share of ~25% in FY2023. The rating takes into account the diversified location of the company's refineries, translating into sizeable capacities, and a ~14% share in the domestic refining sector as on December 31, 2023.

The gross refining margins (GRMs) of domestic refiners, including BPCL, peaked in FY2023, resulting in healthy profitability in the refining segment. The GRMs have tapered off to some extent in the current year, although these continue to remain healthy. Thus, the profit generation for the current fiscal is likely to remain healthy for the refining segment. The marketing margins were depressed in FY2023, though they started to improve in the current fiscal with the correction in crude prices in the range of \$80-85 per barrel.

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. The GoI has approved a capital grant of Rs. 30,000 crore for the PSU OMCs towards energy transition and achieving net zero initiatives, although the grant has been slashed to half and shifted to FY2025.

BPCL 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). On a consolidated basis, BPCL is expected to incur around ~Rs. 12,000 crore in the current fiscal and the capex is likely to be around ~Rs. 15,000 crore in the next fiscal with the kick-off of the Bina refinery expansion.

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.

ICRA has reaffirmed and withdrawn the rating assigned to BPCL's Rs. 1,440-crore non-convertible debenture (NCD) programme as no amount is outstanding against the rated instrument. This is in line with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strategic importance to Gol in domestic energy sector- - The Gol 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 company holds significant strategic importance for the Gol 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 FY2023. 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 advantage.

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 Gol's 52.98% stake. 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.

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- $\text{\$}$) 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 the escalation in prices of auto fuel like motor spirit (MS) and high-speed diesel (HSD) to consumers, which may not always be possible as witnessed in the previous fiscal.

Significant capex planned in medium term - BPCL is expected to incur around ~Rs. 12,000 crore in the current fiscal and the capex is likely to be around ~Rs. 15,000 crore in the next fiscal on account of the ongoing Bina project expansion. BPCL's capex plans include expansion of the marketing infrastructure and 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 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 raised the working capital requirements and short-term debt levels of OMCs in the previous fiscal, thereby negatively impacting their profitability. Additionally, there have been instances in the past when in an elevated crude oil price environment, the Gol had intervened in the pricing of MS and HSD, which negatively impacted the marketing profitability of the OMCs. 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 Gol to ensure low under-recovery levels for PSU OMCs provides comfort from a credit perspective. Any adverse change in the Gol's policy in this regard, resulting in a sustained weakening of the key credit metrics of BPCL, will be a key rating sensitivity.

Liquidity position: Strong

BPCL had a cash balance of Rs. ~2,312 crore along with investments of ~Rs. 4,277 crore (including current investments under GOI oil bonds) as on March 31, 2023. 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 of the credit profile would weigh on the rating. 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 also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Refining & Marketing Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	ICRA has factored in the support from the GoI as the parent, given the 52.98% ownership in BPCL 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

About the company

BPCL, a GoI undertaking (52.98% holding as on September 30, 2023) and a Fortune 500 company, was originally incorporated as Bharat-Shell Refineries Limited (BSRL) on November 03, 1952, by Shell Petroleum Company Limited. 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 14.19% of India's total refining capacity. It is India's second-largest OMC, with domestic sales volume of over ~48 MMT in FY2023. With around 21,142 retail outlets as on March 31, 2023, 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 across seven countries. Apart from stakes in nine blocks in India, BPRL has PI in 11 blocks in Mozambique, Brazil, Indonesia, East Timor, Australia, and Abu Dhabi.

Key financial indicators (audited)

BPCL Consolidated	FY2022	FY2023	H1FY2024
Operating income	346,791.1	473,187.2	216,029.2
PAT	10,145.8	- 60.9	18,111.2
OPBDIT/OI	5.8%	2.3%	13.3%
PAT/OI	2.9%	0.0%	8.4%
Total outside liabilities/Tangible net worth (times)	2.6	2.5	2.0
Total debt/OPBDIT (times)	3.2	6.4	1.0
Interest coverage (times)	7.7	2.9	15.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 12, 2024	Mar 14, 2023	-	-
1 NCD	Long term	1,000.0	1,000.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
2 NCD	Long term	1,440.0	0.0	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	-	-

Complexity level of the rated instruments

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE322J08024	NCD	13-Jul-20	5.85%	13-Jul-23	600.0	[ICRA]AAA (Stable); withdrawn
INE322J08032	NCD	16-Dec-20	5.75%	15-Dec-23	840.0	[ICRA]AAA (Stable); withdrawn
INE322J08040	NCD	26-Oct-21	6.27%	26-Oct-26	1,000.00	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	BPCL Ownership*	Consolidation Approach
Bharat PetroResources Ltd	100.00	Full
Bharat PetroResources JPDA Ltd	100.00	Full
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
Bharat Renewable Energy Ltd	33.33	Proportionate
Bharat Stars Services Pvt Ltd	50.00	Proportionate
Central UP Gas Ltd	25.00	Proportionate
Delhi Aviation Fuel Facility Pvt Ltd	37.00	Proportionate
FINO Paytech Ltd	21.10	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
IHB Pvt Ltd	25.00	Proportionate
Indraprastha Gas Ltd	22.50	Financial investment
Kannur International Airport Ltd	16.20	Financial investment
Kochi Salem Pipeline Pvt Ltd	50.00	Proportionate
BPCL-KIAL Fuel Farm Pvt Ltd	74.00	Proportionate
Maharashtra Natural Gas Ltd	22.50	Proportionate
Matrix Bharat Pte Ltd	50.00	Proportionate
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
Falcon Oil & Gas BV	30.00	Proportionate
IBV (Brasil) Petroleo Ltda	61.36	Proportionate
JSC Vankorneft	7.89	Financial investment
LLC TYNGD	9.87	Financial investment
Mozambique LNG 1 Company Pte Ltd	10.00	Financial investment
Moz LNG1 Holding Co Ltd	10.00	Financial investment
Moz LNG1 Financing Company Ltd	10.00	Financial investment
Mozambique LNG1 Co Financing LDA	10.00	Financial investment

Taas India Pte Ltd	33.00	Proportionate
Urja Bharat Pte Ltd	50.00	Proportionate
Vankor India Pte Ltd	33.00	Proportionate

*- In percentage

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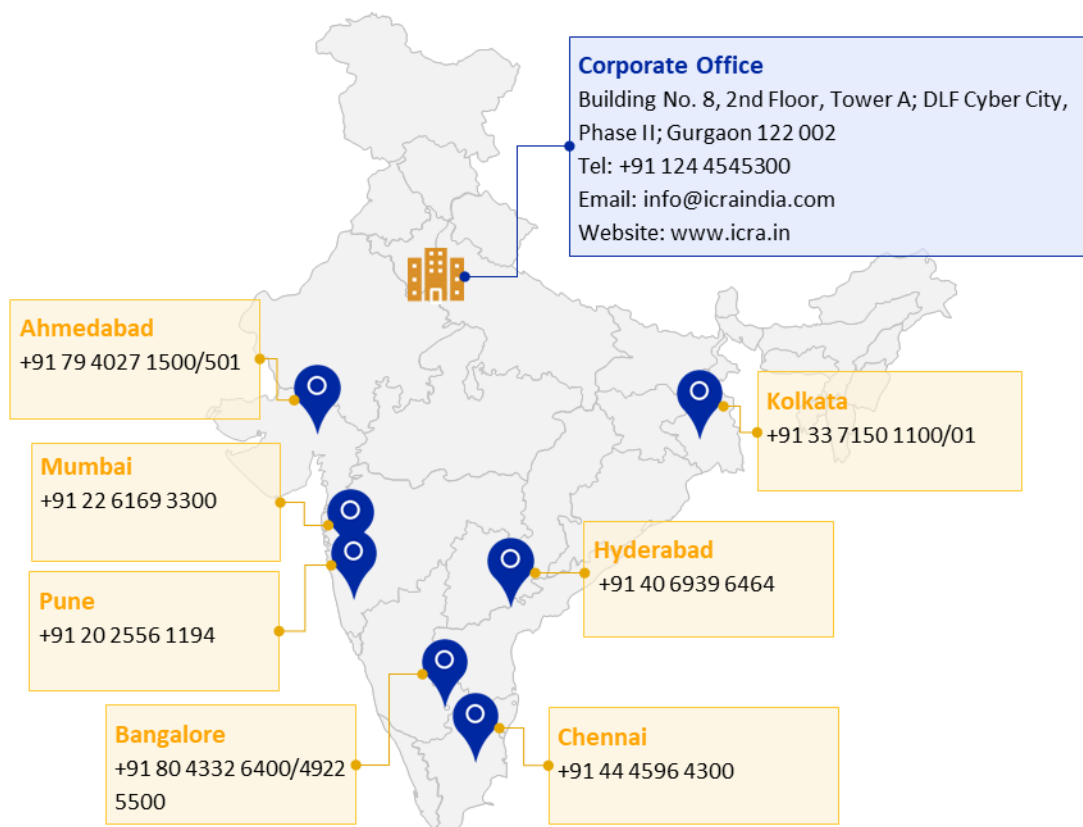


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