September 27, 2024

Indian Oil Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	11,625.00	11,625.00	[ICRA]AAA (Stable); reaffirmed
Commercial paper	40,000.00	40,000.00	[ICRA]A1+; reaffirmed
Total	**51,625.00**	**51,625.00**	

**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 31% 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 in 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, translating into comfortable cash flow generation and credit profile.

Key rating drivers and their description

Credit strengths

Strategic importance to the GoI in the domestic energy sector - IOC, being the largest oil refining and marketing company in India, commands considerable economic importance. The company holds significant strategic importance to 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 over 31%. 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 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 11. Six of its nine refineries are in inland areas. The most recently set up refinery at Paradip, being situated on the coast, has diversified IOC's locational presence vis-à-vis the land-locked position of its other refineries.

Integration in marketing, pipelines and petrochemical segments reducing cyclicality associated with the refining segment – IOC's large marketing operations generate largely stable profits, although these are subject to risks related to regulatory developments and inventory gains/losses to some extent. Further, the company's large pipeline infrastructure ensures stable cash generation. The forward integration of IOC into the petrochemical segment provides operational synergies, like conversion of surplus products such as naphtha into higher value petrochemicals (like HDPE, PP etc), which also leads to higher margins. Overall, the significant integration across segments reduces the risks related to refining operations. However, at present, the OMCs in general and IOC in particular is facing downward pressure in the GRMs as well as in the profitability of the petrochemical segment. However, the comfortable marketing profitability and the steady profitability in the pipeline segment offer comfort.

Considerable liquidity and financial flexibility from investment portfolio and significant sovereign ownership - IOC continues to enjoy high financial flexibility that has enabled it to borrow from domestic and overseas banks and the capital markets at competitive rates to fund its large working capital requirements and for project finance. Besides the strong parentage of the GoI with 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 – The nature of the business is such that the company is exposed to the movement in commodity price cycles and the volatility in crude prices. Any adverse changes in 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$) as the business is largely dollarised on sales, crude procurement and foreign currency loans.

Exposed to regulatory risks related to under-recoveries – Higher crude oil prices, if sustained, result in a 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. Additionally, there have been instances in the past when in an elevated crude oil price environment, the GoI has intervened in the pricing of motor spirit (MS) and high speed diesel (HSD), which has negatively impacted the marketing profitability of the OMCs. Accordingly, IOC remains exposed to 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 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 IOCL, will be a key rating sensitivity

Significant project implementation risks - The company has significant capex plans spanning the entire downstream value chain with a total outlay of around Rs. 1.5 lakh crore over the next 3-4 years. The capex plans include the brownfield expansion of refineries, setting up 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. This apart, the company is planning to expand its renewable energy portfolio along with capex towards attaining net zero targets.

Environmental and Social Risks

Environmental considerations - IOCL is exposed to the risks of tightening regulations on environment and safety. These regulatory changes have necessitated IOCL to increase its investments towards meeting the evolving and tighter regulatory standards. While IOCL has been taking various steps to comply with all the environmental regulations and various statutory approvals/permits granted by the authorities, it 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. IOCL's ability to adapt its business model, including diversification into new segments, would be a key rating driver from a longer term credit perspective.

IOCL is investing in expanding its refinery capacity, and petrochemical integration forms an imperative part of the refinery expansion, going forward. The company is also setting up EV charging stations and is focusing on building its natural gas portfolio in order to garner a major share of the gas in the Indian energy mix. This apart, the company is expanding its renewable portfolio.

Social considerations - The worldwide societal trend towards a shift to less carbon-intensive sources of energy could structurally reduce the demand for oil and refined products and weigh on prices. However, for emerging markets like India, such a change in consumer behaviour or any other driver of change is expected to be relatively slow-paced. Therefore, while IOCL remains exposed to the aforementioned social risk, it does not materially affect its credit profile as of now. Going forward, while IOCL's earnings are likely to remain comfortable, in the long term it is expected that electric vehicles and other green technologies like hydrogen will occupy a larger space in the overall energy demand.

Liquidity position: Strong

IOCL had cash and cash equivalent of Rs. 1,246.9 crore along with current investments of ~Rs. 10,379.9 crore (including the current investments under GOI oil bonds) as on March 31, 2024, and sizeable undrawn credit lines. The company enjoys strong access to the capital markets and high financial flexibility due to its sovereign ownership and strategic importance. 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 may also weigh on the ratings. A material increase in the net under-recoveries due to changes in Government policies on pricing/subsidy sharing on sensitive petroleum products would exert pressure on IOCL's profitability and cash flows and could trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Refining and Marketing
Parent/Group support	ICRA has factored in the support from the GoI as a parent, given its 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. The list of entities consolidated is given 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 80.8 MMTPA, which is 31% (as on March 31, 2024) 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). At present, the company operates CGD networks in five geographical areas in Uttar Pradesh through Green Gas Limited {a joint venture with GAIL (India) Limited}; besides, the company is implementing CGD projects across several other cities through a JV with the Adani Group - Indian Oil-Adani Gas Private Limited.

Key financial indicators (audited)

IOC Consolidated	FY2023	FY2024
Operating income	841755.9	776351.9
PAT	10,842.1	41,615.2
OPBDIT/OI	4.6%	9.9%
PAT/OI	1.3%	5.4%
Total outside liabilities/Tangible net worth (times)	2.1	1.6
Total debt/OPBDIT (times)	3.9	1.7
Interest coverage (times)	5.1	9.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; this does not include the ICRA adjustments for JVs

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	Current rating (FY2025)			Chronology of rating history for past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				27-Sep-24	28-Sep-23	29-Sep-22	23-Aug-22	7-Sep-21
1	**NCD programme**	Long term	11,625	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**
2	**NCD programme**	Long term	-	-	**ICRA]AAA (Stable); withdrawn**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**
3	**Commercial paper programme**	Short term	40,000	**[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
INE242A08452	NCD	Mar 6, 2020	6.39%	Mar 6, 2025	3000**	[ICRA]AAA (Stable)
INE242A08478	NCD	Aug 3, 2020	5.40%	Apr 11, 2025	1,625	[ICRA]AAA (Stable)
INE242A08486	NCD	Oct 20, 2020	5.50%	Oct 20, 2025	2,000	[ICRA]AAA (Stable)
INE242A08536	NCD	Sep 06, 2022	7.14%	Sep 06, 2027	2,500	[ICRA]AAA (Stable)
INE242A08544	NCD	Nov 25, 2022	7.44%	Nov 25, 2027	2,500	[ICRA]AAA (Stable)
INE242A14XL2	Commercial paper	Jul 10, 2024	7.05%	Sep 23, 2024	2,150	[ICRA]A1+
INE242A14XM0	Commercial paper	Jul 29, 2024	7.07%	Sep 27, 2024	600	[ICRA]A1+
INE242A14XM0	Commercial paper	Aug 13, 2024	7.10%	Sep 27, 2024	850	[ICRA]A1+
INE242A14XO6	Commercial paper	Aug 14, 2024	7.19%	Nov 11, 2024	930	[ICRA]A1+
Unplaced	Commercial paper*	-	-	-	35,470	[ICRA]A1+

Source: Company, CP issuances are as on September 19, 2024

** - Unplaced*

***Issued amount Rs. 2,995 crore*

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

Annexure II: List of entities considered for consolidated analysis

Company Name	IOCL Ownership	Consolidation Approach
Chennai Petroleum Corporation Limited	51.89%	Full Consolidation
Indian Oil (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
IOC Global Capital Management IFSC Limited	100.00%	Full Consolidation
IndianOil Adani Ventures Limited	50.00%	Equity Method
Lubrizol India Private Limited	26.00%	Equity Method
Indian Oil Petronas Private Limited	50.00%	Equity Method
Green Gas Limited	49.99%	Equity Method
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 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

Company Name	IOCL Ownership	Consolidation Approach
Indian Synthetic Rubber Private Limited	50.00%	Equity Method
IndianOil Ruchi Bio Fuels LLP	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
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
Cauvery Basin Refinery and Petrochemicals Limited	25.00%	Equity Method
IndianOil NTPC Green Energy Private Limited	50.00%	Equity Method
GH4 India Private Limited	33.33%	Equity Method

Source: IOCL annual report FY2024

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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