October 08, 2024

HPCL-Mittal Energy Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based - Term loan	14,785.0	14,785.0	[ICRA]AA+ (Stable); reaffirmed
Non-convertible debenture	1,000.0	1,000.0	[ICRA]AA+ (Stable); reaffirmed
Total	**15,785.00**	**15,785.00**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the rating of HPCL-Mittal Pipeline Limited (HMPL), ICRA has taken a consolidated view of HPCL-Mittal Energy Limited (HMEL) and its 100% subsidiary HMPL, because of the synergies between the two.

The rating reaffirmation factors in HMEL's strategic importance and operational linkages with parent Hindustan Petroleum Corporation Limited (HPCL, [ICRA]AAA(Stable)/[ICRA]A1+), the high complexity of its refinery which aids its gross refining margins (GRMs) and the financial flexibility owing to which the company has refinanced most of the long-term debt, resulting in low debt repayments in the near to medium term and an elongated maturity profile. As a result of this refinancing, the break-even GRM for HMEL to service its debt obligations and meet the operational expenses will remain lower than the actual GRMs posted. Moreover, HMEL's refinery is also one of the most complex refineries in India with a Nelson Complexity Index (NCI) of 12.6, and its distillate yield is high with more than 50% of the product slate comprising diesel. Moreover, HMEL has commissioned the 1.2-MMTPA petrochemical plant which will result in downstream integration as well as revenue diversification apart from providing a boost to the cash flow generation in the longer run.

Further, HMEL is strategically important for HPCL to meet the demand in the northern region as HPCL does not have any refinery in this region. HMEL has a product offtake agreement with HPCL with a take-or-pay clause for its liquid products till CY2026 (with rollover option for another 5+5 years), mitigating the offtake risk. Additionally, HPCL has provided operational and financial support to HMEL in the past.

However, the rating is tempered by the elevated debt levels on account of the large petrochemical project commissioned in March 2023 (1.2 MMTPA mixed feed cracker). Moreover, the petrochemical spreads have been subdued owing to excess capacities in Asia as well as muted demand from China and Europe and the company remains exposed to the inherent volatility in the petrochemical spreads.

The GRMs remained strong in the last fiscal, resulting in healthy EBITDA generation. However, the GRMs have started to moderate due to a lackluster global demand scenario, which along with the low petrochemical spreads are likely to exert pressure on the profit generation in the current fiscal. ICRA expects the consolidated OPBDITA to be in the range of Rs. 4,500-5,500 crore, which will exert pressure on the debt metrics. The OPBDITA is expected to expand, going forward, translating into improved coverage and leverage metrics in the near term.

The ratings also take into account the vulnerability of the company's profitability to the global refining margin cycle, import duty protection and INR-USD parity levels. The ratings also consider the asset concentration risk from being a single location refinery and the sensitivity of the profits to crude oil price volatility as inventory losses/gains are likely to be higher for land-locked refineries like HMEL in a scenario of sharp fall/rise in crude oil prices because of the high inventory holdings.

Moreover, ICRA notes that there is credit rating linked trigger with respect to the coupon step-up and step-down as well as mandatory prepayment event if the ratings of NCDs of HMEL are downgraded to a particular level.

The Stable outlook reflects ICRA's expectation of adequate cash generation from refinery and petrochemical operations, driven by healthy capacity utilisation of the refinery, to meet the debt obligations. While the profitability is expected to moderate in

FY2025, the debt repayments have also been elongated, resulting in comfortable cash flow generation vis-à-vis the repayment obligations.

Key rating drivers and their description

Credit strengths

Long and established track record of HPCL in domestic refining and marketing business – The rating of HMEL considers the support from HPCL, the lead sponsor, which has a long track record in the refining segment and provides financial flexibility. HPCL, which has a strong credit profile, is also responsible for product marketing through a take-or-pay agreement with HMEL for the liquid products and has set up the relevant marketing infrastructure to facilitate the same. HMEL is also of strategic importance for HPCL as the latter does not have any other refinery in the product-deficit northern region of the country.

Favourable location of refinery in petroleum product-deficit and high-growth northern region – HMEL's refinery is situated in the petroleum product-deficit northern region of the country, where demand has been growing faster than the other parts of the country. There are only three refineries in the north — at Panipat in Haryana and Mathura in Uttar Pradesh, both owned by Indian Oil Corporation Limited (IOC, rated [ICRA]AAA(Stable)/[ICRA]A1+), and HMEL's unit Bathinda. The demand in this region surpasses the combined capacity of these refineries. Hence, the products are transported from the western part of the country. After the commissioning of HMEL's refinery, the shortage has decreased in the northern region.

Superior refining capability, high operational efficiency and healthy capacity utilisation in last couple of years – HMEL's refinery can process mostly heavy and sour crude oil (average APIº: 26) and achieve a high distillate yield. As the demand for middle distillates is expected to increase in the domestic market, the configuration has been selected to maximise the yield. The refinery also has the flexibility to change its product slate marginally. Overall, the Nelson Complexity Index (NCI), a measurement of the complexity, is high at 12.6 for the refinery. The operational performance of the refinery has been healthy in the recent past, characterised by higher capacity utilisation levels (>100%). The throughput was 12.6 MMTPA in FY2024, indicating a capacity utilisation of around 113%, and this has remained high in the current fiscal as well.

Downstream integration with commencement of petrochemical project – The commencement of the 1.2-MMTPA petrochemical ethylene cracker plant in March 2023 helped HMEL to diversify its product portfolio, producing a range of petrochemical products. This diversification reduces the company's reliance on traditional fuel products and expand its offerings to cater to different market demands. The new petrochemical plant also created additional revenue stream for the company. HMEL, being an integrated energy company, can leverage the synergy between its existing refining operations and the new petrochemical plant. By using the refinery's by-products as feedstock for the petrochemical plant, the company also optimises the operational efficiency and cost-effectiveness.

Healthy financial flexibility – The rating factors in the heathy financial flexibility of HMEL, reflected in its ability to refinance its term loan obligations. Further, healthy accruals have enabled the company to deleverage its balance sheet partly. The term debt repayments will remain low for FY2025, with a gradual increase, going forward.

Credit challenges

Large debt-funded capex for petrochemical project keeps debt levels elevated – HMEL commissioned a petrochemical project in March 2023 to diversify its product slate. The project is a 1.2-MMTPA (ethylene) multi-feed cracker with fuel gas, naphtha and other petroleum outputs of the refinery as feedstock. This was a sizeable capex funded through debt. The debt tied up for the petrochemical project has a long moratorium and repayment tenure, which provides comfort from a credit perspective, and the company has consistently elongated the maturities of the upcoming maturities.

Vulnerability of profitability to volatility in refining margins and petrochemical spreads, USD-INR parity, import duty differentials – The refining of crude oil is a capital-intensive industry and the large lumpy capacity additions result in cyclicality in GRMs globally. Being a deregulated sector, HMEL's profits are exposed to the international refining cycle. Besides, crude oil and most petroleum products are priced in US$/bbl or US$/MT, which along with the significant foreign currency debt, makes the profits vulnerable to foreign currency movements (especially INR-USD levels). Further, the domestic refining industry, including HMEL, has duty protection due to the differential in the duties of finished petroleum products and crude oil, and any adverse regulatory development will negatively impact the profits. HMEL's refinery at Bathinda is land-locked, which makes it more vulnerable to the crude oil price volatility as inventory losses/gains are likely to be higher for such refineries in a scenario of a sharp fall/rise in crude oil prices because of the high inventory holdings.

Asset concentration risk as a single-location refinery – HMEL has refining operations only at Bathinda, Punjab, and derives all its revenues from this single unit. The operations at one location expose it to asset concentration risks related to natural calamities, accident at the plant etc. Nonetheless, the risk is partly mitigated by various insurance covers.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate with the capex cycle largely over and the presence of free cash balances of around Rs. 2,900 crore as on March 31, 2024 along with some cushion in the working capital limits amid low repayment requirements.

Rating sensitivities

Positive factors – A material improvement in the cash generation, resulting in a deleveraging of the balance sheet would be a positive trigger.

Negative factors – Worsening of the credit risk profile of HPCL, or weakening of linkages of HMEL with HPCL, or any significant deterioration in HMEL's financial risk profile could lead to a downward revision of the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Refining and Marketing
Parent/Group support	**Parent: Hindustan Petroleum Corporation Limited** The rating takes into account the parentage of HPCL as the parent has provided significant equity support in the past. HMEL is of strategic importance to the parent, given the take-or-pay offtake agreement for liquid products and the absence of an HPCL refinery in petroleum product-deficit northern India
Consolidation/Standalone	The rating is based on the consolidated financials of HMEL

About the company

HPCL-Mittal Energy Limited (HMEL), incorporated as Guru Gobind Singh Refinery Limited (GGSRL) in 2000, is a joint venture between HPCL and Mittal Energy Investment Pte Ltd (MEIL, Singapore - an LN Mittal group company). Both the JV partners hold 48.99% stake each in the company, while the remaining 2.02% is held by financial institutions (IFCI – 0.96%, SBI – 0.65% and HDFC Life – 0.4%).

In February 2012, HMEL commercially commissioned a greenfield refinery complex with a 9-MMTPA capacity at Bathinda (Punjab) along with a captive power plant of 165 MW. The refinery is configured to process a wide range of crude, including heavy crude, and achieved EURO III/EURO IV specifications for auto fuels. In June 2017, HMEL completed the expansion of its refining capacity to 11.3 MMTPA from 9 MMTPA. The company commissioned a 1.2-MMTPA ethylene cracker at its Bathinda facility in March 2023.

To meet the crude receipt and storage facilities as well as to transport the crude for the company, its wholly-owned subsidiary - HPCL-Mittal Pipelines Ltd (HMPL) - set up a crude oil terminal (COT) and a single point mooring (SPM) at Mundra port, Gujarat, and a cross-country pipeline to transport crude oil from Mundra to Bathinda.

Key financial indicators (audited)

HMEL Consolidated	FY2023	FY2024
Operating income	78040.4	74173.6
PAT	4898.6	1843.5
OPBDIT/OI	13.4%	9.7%
PAT/OI	6.3%	2.5%
Total outside liabilities/Tangible net worth (times)	3.7	3.3
Total debt/OPBDIT (times)	3.7	5.1
Interest coverage (times)	8.0	2.6

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	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
				08-Oct-24	23-May-24	15-Dec-23	28-Jul-23	29-Jul-22	30-Jul-21
1	**NCD programme**	Long term	1,000	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	**Term Loans**	Long term	14,785	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Very Simple
Term loans	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
INE137K07042	**NCD**	Feb 28, 2020	9.18%	Feb 28, 2030	1000.0	[ICRA]AA+ (Stable)
-	**Term loans**	FY2018-FY2024	7.5%-9%	FY2025-FY2034	14,785.0	[ICRA]AA+ (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	HMEL Ownership	Consolidation Approach
HPCL-Mittal Pipelines Limited	100%	Full consolidation
HMEL Organics Pvt Ltd	100%	Full consolidation
HMEL Green Energy Pvt Ltd	100%	Full consolidation
HMEL Retail Private Limited	100%	Full consolidation

Source: HMEL annual report FY2024

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