June 22, 2021

Invenire Petrodyne Limited (erstwhile Tata Petrodyne Limited): Ratings reaffirmed; outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Non-fund Based Limits	65.00	-	-
Long-term Non-fund Based Limits (Interchangeable)	(65.00)	-	-
Unallocated – Long-term	-	70.00	[ICRA]A reaffirmed; Outlook revised to Stable from Negative
Unallocated – Short-term	-	30.00	[ICRA]A1 reaffirmed
Total	**65.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to Stable follows the anticipated improvement in Invenire Petrodyne Limited's (IPL) financial profile driven by healthy crude oil prices. The recovery in crude oil prices to about $70/bbl currently from the lows of about $20/bbl at the end of April 2020 is driven by the recovery in crude oil demand with the easing of lockdowns and improving vaccination coverage globally, along with the active management of production and supplies by OPEC+. The company plans to increase production at its Merangin block in Indonesia, CB/OS-2 block in India and resume production at the PY-3 block in India in the near term, where production was suspended since 2011. The revenues and cash accruals of the company are expected to increase significantly owing to higher sales volumes and crude oil prices. Though the capex commitments of the company remain large, nevertheless the cash accruals are expected to remain sufficient to meet the capex with minimal reliance on debt. Accordingly, the profitability and debt metrics are expected to remain healthy. The ratings also take into account the operational expertise brought by Invenire Energy Private Limited (IEPL) to the company. With significant prepayment of term loans at a consolidated level and strong tangible net worth, the capital structure has improved substantially to ~0.4 time as on December 31, 2020 from 1.1 times as on March 31, 2019. Furthermore, despite a reduction in profit levels following a decline in operating income, the debt protection metrics were comfortable in 9M FY2021.

The ratings are, however, constrained by the company's small scale of operations. Furthermore, the company's operating income and profit margin were adversely impacted in FY2021 by the reduced output and decline in crude oil prices. In addition, the ratings are constrained by IPL's small reserve size, although there was some improvement in recent years. ICRA takes note of the extension received by the company for PY-3 block from Government commencing from December 2019 and the company's efforts to undertake development drilling which may support the reserve size in the medium term and which is a key monitorable. The company's future revenue growth is partly dependent on its proposed exploratory and development activities, which entail sizeable capex commitments. IPL intends to acquire more blocks in India, South East Asia and FSU countries in the near to medium term. However, as the investment size, funding mix and other details are yet to be finalised, ICRA has not factored any acquisition while evaluating the credit risk profile of IPL. ICRA will review the ratings as and when IPL finalises any acquisition. Accordingly, any large debt-funded acquisition/ investment remains a key rating sensitivity. In addition, 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 prices.

Key rating drivers and their description

Credit strengths

Moderate experience and track record in the E&P business – IEPL has upstream oil and gas assets in South Asia, South East Asia, and East Africa. The management has extensive experience of over two decades in the oil and gas upstream and midstream industry. IEPL has allocated a considerable amount towards building a sustainable oil and gas portfolio across the globe.

Comfortable capital structure and debt protection metrics – The company prepaid the debt in the subsidiary books of Dian Energy B.V. in January 2020 using the internal accruals of the company, making it debt free at the consolidated level as on March 31, 2020. However, the debt levels increased as on March 31, 2021 due to 7.75% interest bearing unsecured loans of ~Rs. 75 crore infused by the parent for investment in JEKPL Private Limited (formerly Jubilant Energy (Kharsang) Private Limited) and working capital borrowings of Rs. 23.1 crore. Nevertheless, with strong tangible net worth, the capital structure improved substantially to ~0.4 time as on December 31, 2020 from 1.1 times as on March 31, 2019. The interest coverage, reflected by operating profit/interest, stood at 8.2 times in 9M FY2021.

Upside from increase in production at Merangin and CB/OS-2 blocks, and expected resumption of production at PY-3 block – The company continues to produce from one field at Merangin block, while another field has been put to production from FY2022. The company has put five new wells to production at the block, while two additional wells are expected to be drilled and put to production in the current fiscal. Further, with its redevelopment plan approved by the Government of India, production at the PY-3 block is expected to resume in the near term. The company had received a 10-year extension, effective from December 2019, for the block. The company along with the other partners in CB/OS-2 block is in the process of submitting application for extension of the PSC for CB/OS-2 Block for ten (10) more years starting July 2023. The proposal to drill additional development wells to enhance production has been proposed by the Operator of CB/OS-2 block and the same is under review of the partners.

Credit challenges

Small scale as an E&P player – While there has been an increase in the company's total reserve base from FY2018, its proved and proved and developed (P&D) reserves remain small in comparison to other global and domestic E&P players. The revenues from sale of oil and gas stood at Rs.370.6 crore and Rs.209.85 crore in FY2020 and FY2021, respectively.

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

Possible event risks – The company's operations are exposed to possible event risks arising from prolonged delays in execution of development plans given approvals at multiple levels, operational/logistical factors and other similar uncertainties.

Liquidity position: Adequate

The company's liquidity is **adequate** with no repayment obligation in the near term. At a consolidated level, the company had free cash balance of Rs. 9.75 crore as on March 31, 2021. ICRA also draws comfort from the unsecured loans infused by the parent, whose repayment will be flexible, based on the liquidity available with the company. At consolidated level the planned capex is expected to remain in the range of Rs. 320–420 crore during FY2022-FY2024, which will be funded through internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if there is an increase in scale of reserves leading to increase in production and improvement in reserve metrics, such as RRR and RLI, thereby increasing the scale of operations. Increase in profit margin driven by improvement in cost structure will also remain critical for a rating upgrade.

Negative factors – The rating could be downgraded if there is significant decline in crude oil prices and profitability leading to lower than anticipated cash accruals, or if higher-than-expected debt-funded capex leads to 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 breach of total debt/operating profit ratio above 2.0 times can also result in a rating downgrade.

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, ICRA has considered the consolidated financial profile of IPL. As of March 31, 2021, IPL had one wholly-owned subsidiary, who is enlisted in Annexure-2.

About the company

Incorporated in 1993, Invenire Petrodyne Limited (formerly Tata Petrodyne Limited), is engaged in the exploration and production of oil and gas. As an E&P company, IPL's business model is based on holding participating interest by way of financial investments in various oil and gas blocks in consortium with reputed global and Indian E&P companies. Currently, IPL holds interests in three oil and gas blocks in India, while its wholly-owned subsidiary, Dian Energy B.V., and further step-down subsidiaries, all based in the Netherlands, hold interest in one oil and gas block in Indonesia. Of these, only three are producing blocks, viz. PY-3 (21% PI) and CB-OS-2 (10% PI) in India and Merangin (35.4% PI) in Indonesia.

Earlier the company was a wholly-owned subsidiary of Tata Sons Limited; however, the entire stake of Tata Sons Limited in IPL (erstwhile Tata Petrodyne Limited) was sold to Invenire Energy Private Limited, an upstream oil and gas company backed by private equity.

In FY2020, the company reported a net profit of Rs. 15.44 crore on an OI of Rs. 373.96 crore, compared to a net profit of Rs. 83.86 crore on OI of Rs. 399.64 crore in the previous year.

Key financial indicators (Audited)

IPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	399.64	373.96
PAT (Rs. crore)	83.86	15.44*
OPBDIT/OI (%)	36.27%	36.23%
PAT/OI (%)	20.98%	4.13%
Total Outside Liabilities/Tangible Net Worth (times)	1.71	0.71
Total Debt/OPBDIT (times)	1.89	0.00
Interest Coverage (times)	8.98	10.18

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**PAT is after adjusting exceptional loss of Rs. 96.45 crore in FY2020, of which Rs.75.21 crore was non-cash expense on account of withdrawal from Tanzania and sale of Belida block in Indonesia.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					June 22, 2021	June 19, 2020	December 31, 2019	November 30, 2018	June 1, 2018
1	Non-Fund Based Limits	Short-Term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1+&	[ICRA]A1+
2	Non-Fund Based Limits*	Long-Term	-	-	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+&	[ICRA]A+ (Stable)
3	Unallocated	Long-term	70.00	-	[ICRA]A (Stable)	-	-	-	-
4	Unallocated	Short-term	30.00	-	[ICRA]A1	-	-	-	-

**Sublimit of short-term non-fund based limits*
& - under rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated- Long-term	Not applicable
Unallocated- Short-term	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 analyzing 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, is available on ICRA’s website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Unallocated Limit- Long-term				70.00	[ICRA]A(Stable)
NA	Unallocated Limit- Short-term				30.00	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Dian Energy B.V.	100.00%	Full Consolidation

Source: *Company*

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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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