

August 05, 2022

## Hindustan Petroleum Corporation Limited: Ratings reaffirmed; assigned for proposed NCD programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Non-convertible Debenture Programme	17,500.00	17,500.00	[ICRA]AAA(Stable) reaffirmed
Long-term Proposed Non-Convertible Debenture <sup>^</sup>	-	5,000.00	[ICRA]AAA(Stable) assigned
Short-term: Commercial Paper	15,000.00	15,000.00	[ICRA]A1+; reaffirmed
Issuer Rating	-	-	[ICRA]AAA(Stable); reaffirmed
Long-term: Cash Credit	7,800.00	7,800.00	[ICRA]AAA(Stable); reaffirmed
Long-term: Fund Based Limits	13,125.00	13,125.00	[ICRA]AAA(Stable); reaffirmed
Short-term: Non-fund Based Limits	22,350.00	22,350.00	[ICRA]A1+; reaffirmed
Unallocated Limits	1,725.00	1,725.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
<b>Total</b>	<b>77,500.00</b>	<b>82,500.00</b>	

\*Instrument details are provided in Annexure-I

<sup>^</sup>Interchangeable with proposed long-term bank facilities

### Rationale

The reaffirmation of the ratings considers the strategic importance of Hindustan Petroleum Corporation Limited (HPCL/the company) in the domestic energy sector, its strong parent (Oil and Natural Gas Corporation Limited, or ONGC; rated ([ICRA]AAA (Stable)/[ICRA]A1+), an established brand name and its leading position in the domestic oil marketing business. The ratings favourably consider the proximity of the company's refineries to the coast, which provides logistical advantage in importing crude oil and exporting petroleum products.

The ratings also factor in the company's strong operational efficiencies with both its refineries (Mumbai and Vishakhapatnam) operating at consistently high utilisation levels. The company completed the capacity expansion of its Mumbai refinery in FY2022; the capacity expansion and residue upgradation project at the Visakh refinery is expected to be completed in FY2023 which would improve the profitability of the refining operations.

The crude throughput declined in FY2022 owing to fire in one of the crude distillation units at the Visakh refinery and the scheduled shutdown of the Mumbai refinery for capacity expansion. Nevertheless, the gross refining margins (GRMs) of domestic refiners, including HPCL, increased in FY2022 owing to the improvement in the crack spreads of most products on account of rising demand and inventory gains. However, in the current fiscal, the company's profit margins are expected to be adversely impacted in H1 FY2023 due to the pressure on marketing margins, which will offset any benefit from higher GRMs during the period.

HPCL's liquidity profile remains strong, backed by an expected healthy cash flow from operations, a sizeable portfolio of liquid investments and an adequate availability of working capital bank limits. HPCL's operations are subject to the regulatory risks pertaining to the pricing of sensitive petroleum products. Nonetheless, over the last few years, the Government of India (GoI)

has been ensuring that the net under-recoveries borne by public sector oil marketing companies (OMCs) are either nil or within manageable levels by absorbing most of the gross under-recoveries (GURs) and sharing the remaining with upstream companies. Any adverse change in the Gol's policy in this regard that weakens HPCL's key credit metrics will be a key rating sensitivity.

HPCL is exposed to project implementation risks as it is implementing large-scale projects spanning the entire downstream value chain as well as through subsidiaries and joint ventures (JVs). There has been a substantial revision in the capex for HPCL's Rajasthan refinery project which is being implemented in a JV with the Rajasthan government. HPCL has a 74% stake in the project and the equity investment will be significantly higher than envisaged earlier. Accordingly, the debt coverage metrics might moderate over the next three to four years. Nonetheless, any further material time or cost overruns that could lead to larger-than-estimated funding requirements would be a key rating sensitivity.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that HPCL will continue to benefit from its established position in the domestic energy sector.

## Key rating drivers and their description

### Credit strengths

**Gol support to ensure profitability of OMCs** - 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. In FY2023, some budgetary support was provided to HPCL for the marginal gross under-recoveries following the increase in the prices of sensitive petroleum products. Despite the switch in ownership to ONGC, ICRA believes HPCL will continue to be of strategic importance to the Gol as it will play a key role in fulfilling its socio-economic policies. Any adverse change in the Gol's policy in this regard will be a key rating sensitivity.

**Coastal refinery provides logistical advantages** - HPCL owns and operates two refineries, one in Mumbai and the other in Visakhapatnam (Andhra Pradesh). As both the refineries are in the coastal region, the company enjoys logistical benefits of lower costs and lesser time taken to transport the imported crude to the refineries and export the refined products. This lowers its inventory holdings to a significant extent compared to other OMCs with inland refineries.

**Established position in domestic marketing business** - The company is one of the three leading public OMCs, with an ~18% market share (including private players) as of FY2022. HPCL has the second-largest marketing network across the country and undertakes multiple branding and customer loyalty initiatives.

**Healthy refining operations** - HPCL has reported refinery utilisation levels of above 100% over the past few years. The capacity utilisation declined in FY2022 due to fire in one of the crude distillation units at the Visakh refinery and shutdown of the Mumbai refinery for capacity expansion. The GRM stood at \$3.9/bbl in FY2021 and improved to \$7.2/bbl in FY2022 owing to the improvement in the crack spreads of most products on account of increasing demand and inventory gains. However, in the current fiscal, the company's profit margins are expected to be adversely impacted in H1 FY2023 due to the pressure on marketing margins, which will offset any benefit from higher GRMs during the period. Going forward, with the completion of the Visakh capacity expansion and residue upgradation project, the scale and cash flows are expected to improve.

**Healthy financial flexibility** - The company enjoys high financial flexibility that allows it to raise debt and access the capital markets at competitive rates to fund its capex and working capital requirements. The flexibility is supported by HPCL's strong parent - ONGC - that owns a 54.9% stake in the company.

## Credit challenges

**Vulnerability of refining segment's profitability to global refining margin cycle, crude price volatility, import duty protection, and INR-₹ 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. HPCL's profitability is also exposed to forex rates (INR-₹) as its business is primarily conducted on dollar terms, crude procurement and forex loans owing to timing differences in pass through of fluctuations. Further, the marketing margins are subject to the company's ability to pass on escalations in prices of auto fuels like MS<sup>1</sup> and HSD<sup>2</sup> to consumers, which may not be possible at all times as witnessed in recent periods,

**Moderate financial profile** – HPCL's key credit metrics, such as total debt/OPBDITA, interest coverage and RoCE<sup>3</sup>, have remained moderate following the increased debt level. The Credit metrics are expected to remain under pressure with a large capital outlay on the ongoing projects and would not see any meaningful improvement till the investments start yielding returns.

**Significant capex planned in medium term** - The company is undertaking aggressive capex plans worth ~ Rs. 14,500 crore in FY2023 and ~Rs. 11,000 crore in FY2024. HPCL's capex plans include the implementation of major projects such as capacity expansion at existing refineries, expansion of its pipeline network, equity contribution for projects under JVs and subsidiaries and foray into petrochemicals. The capex at Visakhapatnam will be completed in Q3 FY2023, while the capex for the Rajasthan refinery (under JV) is expected to be completed by Q1 FY2025. There has been a substantial revision in the capex for the Rajasthan refinery and the equity investment will be much higher than envisaged earlier. Any further material time or cost overruns in the Group projects could increase the company's borrowing levels and weaken the credit metrics.

**Lack of freedom in pricing sensitive petroleum products** - While the prices of motor spirit (MS) and high-speed diesel (HSD) are deregulated, PSU OMCs at times face the pressure of revising the prices in line with the global rates. Moreover, the price of LPG (domestic) is controlled, on which the GoI pays subsidy to cover the under-recoveries. Though the GoI has been ensuring that the net under-recoveries of OMCs are either nil or within manageable levels, any increase in the same in a scenario of high crude oil prices would impact the company's key credit metrics. In March 2020, the GoI instructed state-run oil companies to price PDS<sup>4</sup> SKO<sup>5</sup> at market rates, following the moderation in crude prices. In FY2022 and FY2023, some budgetary support was provided to HPCL for the marginal gross under-recoveries.

## Liquidity position: Strong

HPCL's liquidity is expected to remain strong, aided by healthy cash flow generation and sizeable cash and cash equivalents of around Rs. 5,600 crore on the consolidated books as on March 31, 2022. Further, the company has adequate fund-based and non-fund based working capital limits, a sizeable part of which is unutilised. It also enjoys high financial flexibility owing to its strong parent.

## Rating sensitivities

**Positive factors** – Not applicable

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1 Motor Spirit

2 High Speed Diesel

3 Return on capital employed

4 Public distribution system

5 Superior kerosene oil

**Negative factors** – Downward pressure on HPCL’s ratings could arise if there is significant increase in the net under-recoveries due to changes in Government policies on pricing/subsidy sharing on sensitive petroleum products, eroding the company’s profits and cash flows. Rating may also be affected if ONGC's shareholding falls below 50%.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Downstream Oil Companies</a>
Parent/Group support	Parent: Oil and Natural Gas Corporation Limited  While, the parent of HPCL is ONGC Limited, which holds majority shareholding in HPCL, the assigned rating factors in the systemic importance that HPCL holds to Government of India, which ICRA expects should induce GOI to directly or through ONGC to extend timely financial support to the rated entity, should there be a need
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HPCL. The subsidiaries and JVs of HPCL that have been considered are enlisted in Annexure 2.

## About the company

HPCL is a public sector enterprise that owns and operates two refineries, one in Mumbai with a production capacity of 9.5 million metric tonnes per annum (MMTPA) and one in Visakhapatnam with a production capacity of 8.3 MMTPA. The company was incorporated in 1952 as Standard Vacuum Refining Company of India Limited. HPCL has a 49% stake in a JV with Mittal Energy Investments Pte Limited for operating an 11.3-MMTPA refinery in Bhatinda (Punjab). HPCL has a 16.95% equity stake in Mangalore Refinery and Petrochemicals Ltd. (MRPL), which operates a 15-MMTPA refinery in Mangalore (Karnataka). The company is setting up a 9-MMTPA greenfield refinery-cum-petrochemical complex at Pachpadra (Rajasthan) through HPCL Rajasthan Refinery Limited (HRRL) with an equity stake of 74%. ONGC holds a majority shareholding in HPCL, which it acquired from the GoI in January 2018. In October 2019, the company was granted a Maharatna status, which implies higher operational and financial autonomy.

## Key financial indicators (audited)

HPCL Consolidated	FY2021	FY2022
Operating income	232,997	349,683
PAT *	10,664	6,383
OPBDIT/OI	6.8%	2.9%
PAT/OI	4.6%	1.8%
Total outside liabilities/Tangible net worth (times)	2.6	2.9
Total debt/OPBDIT (times)	1.2	1.2
Interest coverage (times)	17.4	10.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

\*Excluding profit/loss of joint ventures/associates

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years							
			Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020		
				August 05, 2022	June 03, 2022	February 22, 2022	August 31, 2021	Jan 7, 2021	July 23, 2020	Jan 10, 2020	Oct 1, 2019	
1	NCDs	Long term	10,000.00	6,650.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
2	NCDs	Long term	7,500.00	7,500.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Proposed NCDs <sup>^</sup>	Long term	5,000.00		[ICRA]AAA (Stable)	-	-	-	-	-	-	-
4	Commercial Paper	Short term	15,000.00	8,940.00*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Cash Credit	Long term	7,800.00		[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6	Fund Based Limits	Long term	13,125.00		[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
7	Non-Fund Based Limits	Short term	22,350.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	Unallocated Limits	Long-term/Short-term	1,725.00		[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	-
9	Issuer Rating	-			[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

<sup>^</sup>Interchangeable with proposed long-term bank facilities, \*As on 4<sup>th</sup> Aug 2022

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture Programme	Simple
Proposed Non-convertible Debenture	Simple
Commercial Paper	Very Simple
Issuer Rating	NA
Cash Credit Limits	Simple
Fund-based Limits	Simple
Non-fund Based Limits	Very simple
Unallocated Limits	NA

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: [www.icra.in](http://www.icra.in)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coup on Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	7,800.0	[ICRA]AAA (Stable)
NA	Long-term Fund Based Limits	-	-	-	13,125.0	[ICRA]AAA (Stable)
NA	Short-term Non-fund Based limits	-	-	-	22,350.0	[ICRA]A1+
NA	Unallocated Limits	-	-	-	1,725	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	NCDs	Yet to be placed	-	-	1,550	[ICRA]AAA (Stable)
INE094A08028	NCDs	April 2019	8.00%	April 2024	500	[ICRA]AAA (Stable)
INE094A08036	NCDs	August 2019	7.00%	August 2024	2,000	[ICRA]AAA (Stable)
INE094A08044	NCDs	October 2019	6.80%	December 2022	3,000	[ICRA]AAA (Stable)
INE094A08051	NCDs	January 2020	6.38%	April 2023	600	[ICRA]AAA (Stable)
INE094A08069	NCDs	March 2020	7.03%	April 2030	1,400	[ICRA]AAA (Stable)
INE094A08077	NCDs	August 2020	5.36%	April 2025	1,200	[ICRA]AAA (Stable)
INE094A08085	NCDs	October 2020	4.79%	October 2023	2,000	[ICRA]AAA (Stable)
INE094A08093	NCDs	May 2021	6.63%	April 2031	1,950	[ICRA]AAA (Stable)
INE094A08101	NCDs	February 2022	6.09%	February 2027	1,500	[ICRA]AAA (Stable)
INE094A08127	NCDs	July 2022	7.12%	July 2025	1,800	[ICRA]AAA (Stable)
INE094A14IU9	Commercial Paper	June 2022	5.15%	August 2022	1,200.00	[ICRA]A1+
INE094A14IX3	Commercial Paper	June 2022	5.19%	August 2022	800.00	[ICRA]A1+
INE094A14IY1	Commercial Paper	June 2022	5.12%	August 2022	700.00	[ICRA]A1+
INE094A14JA9	Commercial Paper	July 2022	5.03%	August 2022	500.00	[ICRA]A1+
INE094A14JB7	Commercial Paper	July 2022	5.15%	September 2022	1,200.00	[ICRA]A1+
INE094A14JC5	Commercial Paper	July 2022	5.15%	September 2022	1,600.00	[ICRA]A1+
INE094A14JD3	Commercial Paper	July 2022	5.18%	September 2022	1,200.00	[ICRA]A1+
INE094A14JE1	Commercial Paper	July 2022	5.30%	September 2022	740.00	[ICRA]A1+
INE094A14JF8	Commercial Paper	July 2022	5.78%	October 2022	1,000.00	[ICRA]A1+
NA	Commercial Paper	Yet to be placed	-	-	6,060	[ICRA]A1+
NA	Issuer Rating	-	-	-	-	[ICRA]AAA (Stable)
NA	Proposed NCDs*	-	-	-	5,000	[ICRA]AAA (Stable)

Source: Company

\*Proposed NCDs are interchangeable with proposed long-term bank facilities

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

<b>Company Name</b>	<b>HPCL Ownership</b>	<b>Consolidation Approach</b>
Prize Petroleum Co. Ltd.	100.00%	Full Consolidation
HPCL Biofuels Ltd.	100.00%	Full Consolidation
HPCL Middle East FZCO	100.00%	Full Consolidation
HPCL LNG Limited (Formerly known as HPCL Shapoorji Energy Private Limited)	100.00%	Full Consolidation
HPCL Rajasthan Refinery Limited	74.00%	Full Consolidation
Ratnagiri Refinery and Petrochemicals Limited	25.00%	Limited Consolidation
HPCL - Mittal Energy Ltd.	48.99%	Full Consolidation
Bhagyanagar Gas Ltd.	48.73%	Limited Consolidation
Aavantika Gas Ltd.	49.99%	Limited Consolidation
IHB Limited.	25.00%	Limited Consolidation
Petronet MHB Ltd.	50.00%	Limited Consolidation
Godavari Gas Private Ltd.	26.00%	Limited Consolidation
Hindustan Colas Pvt. Ltd.	50.00%	Limited Consolidation
South Asia LPG Co. Pvt. Ltd.	50.00%	Limited Consolidation
Mumbai Aviation Fuel Farm Facility Pvt. Ltd.	25.00%	Limited Consolidation
HPOIL Gas Pvt. Ltd.	50.00%	Limited Consolidation
Mangalore Refinery and Petrochemicals Limited	16.96%	Limited Consolidation
GSPL India Gasnet Limited	11.00%	Limited Consolidation
GSPL India Transco Limited	11.00%	Limited Consolidation
Petronet India Limited	16.00%	Limited Consolidation

: Company

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