January 16, 2025 (Revised)

Hindustan Petroleum Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term non-convertible debenture programme	14,250.0	14,250.0	[ICRA]AAA(Stable); reaffirmed
Short-term: Commercial paper	15,000.0	15,000.0	[ICRA]A1+; reaffirmed
Issuer rating	-	-	[ICRA]AAA(Stable); reaffirmed
Long-term: Fund-based limits	21,490.0	21,490.0	[ICRA]AAA(Stable); reaffirmed
Short-term: Non-fund based limits	8,520.0	8,520.0	[ICRA]A1+; reaffirmed
Long-term/ Short-term: Unallocated limits	14,990.0	14,990.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	**74,250.0**	**74,250.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings considers the strategic importance of Hindustan Petroleum Corporation Limited (HPCL/the company) in the domestic energy sector, its high financial flexibility and its indirect large sovereign ownership {54.9% stake owned by ONGC, rated ([ICRA]AAA (Stable)/[ICRA]A1+}. HPCL has an established brand name and a leading position in the domestic oil marketing business, being the fourth-largest refiner and the third-largest distributor of petroleum products in the country. 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 Visakhapatnam) operating at consistently high utilisation levels. Further, production from the additional capacity of the Visakh refinery has commenced and the completion of the residue upgradation project is likely to improve the profitability of the refining operations in the near term. The GRMs were subdued in H1 FY2025 due to a moderation in the crack spreads. The profitability was also impacted in H1 FY2025 due to weaker refining margins, under-recovery on domestic LPG sales and inventory loss on crude oil due to fall in prices. However, the marketing margins on the sale of auto fuels continue to be healthy. The profitability is expected to remain moderate for FY2025 owing to continued losses on domestic LPG sales and subdued refining margins.

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. 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). Any adverse change in the GoI's policy in this regard that weakens HPCL's key credit metrics will be a key rating sensitivity.

HPCL 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). 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. 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 and its strategic importance to the GoI.

Key rating drivers and their description

Credit strengths

Strategic importance to GoI in domestic energy sector- The GoI has, in the past, provided dedicated support to cushion the OMCs from high under-recoveries by institutionalising a subsidy-sharing framework, wherein it bears a large part of the under-recoveries through budgetary allocation. The GoI had approved a one-time grant of ~Rs. 5,617 crore to compensate for the under-recoveries incurred by HPCL on the sale of domestic LPG during financial year 2021-22 and H1 FY2023. The company holds significant strategic importance for 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). Further, the GoI could exert a high level of control on HPCL, either directly or through ONGC. Thus, the sovereign support is expected to continue, going forward, as well.

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 has the logistical benefit of lower cost and lesser time taken to transport the imported crude to the refineries. This lowers its inventory holdings to a significant extent compared to the other OMCs with inland refineries. Further, coastal refinery would be beneficial owing to flexibility to export, evacuate products by coastal shipping.

Established position in domestic refining and marketing business - The company is one of the three leading public OMCs. HPCL has an established brand name and a leading position in the domestic oil marketing business, being the fourth-largest refiner and the third-largest distributor of petroleum products in the country.

Considerable 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 its strategic importance to the GoI.

Credit challenges

Vulnerability of profitability to global refining margin cycle, import duty protection and INR-$ parity levels - The company remains exposed to the movements in the commodity price cycle and volatility in crude prices. Further, it holds a large crude inventory and any sharp decline in crude prices would result in inventory losses. Any adverse change in import duty on its products would affect 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 the pass-through of fluctuations. Further, the marketing margins are subject to the company's ability to pass on the escalations in prices of auto fuels like MS (motor spirit) and HSD (high-speed diesel) to the consumers, which may not be always possible as witnessed in the past. The profitability in H1 FY2025 was impacted by weakened refining margins, inventory losses and under-recovery on domestic LPG sales despite the healthy marketing margins.

Significant capex planned in medium term- The company is undertaking significant capex plans over the next 4 years from FY2025-FY2028, which include refinery expansion, renewables, biofuels, natural gas, expansion of pipeline network, equity contribution for projects under JVs and subsidiaries and foray into petrochemicals. Production from the additional capacity of the Vizag refinery has already commenced and is now nearing stabilisation, and the refining portion of the Rajasthan refinery (under JV) is expected to be completed in FY2026. Any further material time or cost overruns in the 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, if sustained, result in a material increase in the 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. Additionally, there have been instances in the past when in an elevated crude oil price environment, the GoI had intervened in the pricing of MS and HSD, which affected the marketing profitability of the OMCs. Accordingly, there remains regulatory risks related to the pricing of sensitive petroleum products and auto fuel 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 HPCL, will be a key rating sensitivity.

Liquidity position: Strong

HPCL's liquidity is expected to remain strong, aided by sizeable cash and cash equivalents of ~Rs. 5,610 crore on its consolidated books as on September 30, 2024 with adequate fund-based and non-fund based working capital limits, a sizeable part of which is unutilised. The company enjoys strong access to the capital markets and high financial flexibility due to its strategic importance to the GoI.

Environmental and Social Risks:

Environmental considerations - HPCL is exposed to the risk of tightening regulations on environment and safety. However, HPCL has been compliant with the environmental regulations, enabling it to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. Nonetheless, HPCL 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 imports. HPCL's ability to adapt its business model, including diversification into new segments, would be a key rating driver from a longer term credit perspective.

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 the 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 HPCL remains exposed to the aforementioned social risk, it does not materially affect its credit profile as of now. Going forward, while HPCL's earnings are likely to remain comfortable, electric vehicles and other green technologies like hydrogen are expected to occupy a larger space in the overall energy demand over the long term.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Downward pressure on HPCL's ratings could arise if there is a 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. The rating may also be affected if ONGC's shareholding falls below 50%.

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 the parent, given the 54.9% ownership in HPCL through ONGC and the strategic importance of the company in ensuring energy safety of the country. The GoI could exert a high level of control in HPCL, either directly or through ONGC

Consolidation/Standalone	For arriving at the ratings, ICRA considered the consolidated financials of HPCL. The subsidiaries and JVs of HPCL that have been considered are listed in Annexure II

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 another in Visakhapatnam with a production capacity of 13.7 MMTPA as on date. The company was incorporated in 1952 as Standard Vacuum Refining Company of India Limited.

HPCL also owns 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	FY2023	FY2024	H1FY2025*
Operating income	440,709	433,857	213,865
PAT	- 9,472	14,207	781
OPBDIT/OI	-1.2%	5.8%	2.24%
PAT/OI	-2.1%	3.3%	0.36%
Total outside liabilities/Tangible net worth (times)	4.0	2.9	3.1
Total debt/OPBDIT (times)	- 12.9	2.49	7.14
Interest coverage (times)	- 2.4	9.85	2.86

*Source: Company, ICRA Research; * Provisional numbers; 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 the past 3 years								
		Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024		Date & rating in FY2023					Date & rating in FY2022	
				Jan 16,2025	Oct 09,2024	March 08, 2024	April 28, 2023	March 16, 2023	Dec 09, 2022	Sep 02, 2022	Aug 05, 2022	Jun 03, 2022	Feb 22, 2022	Aug 31, 2021
1	**NCDs**	Long term	9,350.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)
2	**NCDs**	Long term	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)
3	**NCDs`**	Long term	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)
4	**NCDs**	Long term	4,900.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
5	**NCDs**	Long term	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
6	**Commercial paper**	Short term	15,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1 +	[ICRA]A1+
7	**Commercial paper**	Short term	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1 +	[ICRA]A1+
8	**Cash credit**	Long term	-	-	-	-	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)
9	**Fund-based limits**	Long term	21,490.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)

10	**Non-fund based limits**	Short term	8,520.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
11	**Unallocated limits**	Long-term/ Short-term	14,990.0	[ICRA]AAA (Stable)/ [ICRA]A1	[ICRA]AAA (Stable)/ [ICRA]A1	[ICRA]AAA (Stable)/ [ICRA]A1	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
12	**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)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Non-convertible debenture programme	Simple
Short term - Commercial paper	Very Simple
Long term - Issuer rating	NA
Long term - Fund-based limits	Simple
Short term - Non-fund based limits	Very Simple
Long term/Short term - 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Long-term fund-based limits**	-	-	-	21,490.0	[ICRA]AAA (Stable)
NA	**Unallocated limits**	-	-	-	14,990.0	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	**Short-term non-fund based limits**	-	-	-	8,520.0	[ICRA]A1+
INE094A08069	**NCDs**	March 06,2020	7.03%	April 12,2030	1,400	[ICRA]AAA (Stable)
INE094A08077	**NCDs**	August 04, 2020	5.36%	April 11, 2025	1,200	[ICRA]AAA (Stable)
INE094A08093	**NCDs**	May 07, 2021	6.63%	April 11,2031	1,950	[ICRA]AAA (Stable)
INE094A08101	**NCDs**	February 28, 2022	6.09%	February 26, 2027	1,500	[ICRA]AAA (Stable)
INE094A08119	**NCDs**	June 20,2022	7.81%	April 13,2032	1,500	[ICRA]AAA (Stable)
INE094A08127	**NCDs**	July 15, 2022	7.12%	July 30, 2025	1,800	[ICRA]AAA (Stable)
INE094A08135	**NCDs**	November 04, 2022	7.64%	November 04, 2027	2,500	[ICRA]AAA (Stable)
INE094A08143	**NCDs**	December 15, 2022	7.54%	April 15, 2033	750	[ICRA]AAA (Stable)
INE094A08150	**NCDs**	March 02,2023	7.74%	March 02, 2028	1650	[ICRA]AAA (Stable)
NA	**Commercial paper**	Yet to be placed	-	-	15,000.00	[ICRA]A1+
NA	**Issuer rating**	-	-	-	-	[ICRA]AAA (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	HPCL Ownership	Consolidation Approach
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 Renewable & Green Energy 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

Company Name	HPCL Ownership	Consolidation Approach
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

Source: Company

Corrigendum

In the Annexure I: Instrument details table is updated

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