

## HPCL-Mittal Pipelines Limited

Instrument	Amount Rated (Rs. Crore)	Rating Action
Long-term Bond Programme	851 (reduced from 1475)	Upgraded to [ICRA]AA (Positive) from [ICRA]AA- (Stable)
Commercial Paper Programme	300	[ICRA]A1+ rating withdrawn

The rating assigned to the Rs. 851<sup>1</sup> crore long-term bond programme (reduced from Rs. 1475 crore) of HPCL-Mittal Pipelines Limited (HMPL) has been upgraded to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus).<sup>2</sup> The outlook on the long-term rating has been revised to Positive from Stable. The rated bond amount has been reduced due to buy-back of Rs. 624 crore bonds by the company in FY2016. The [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs. 300 crore commercial paper programme of HMPL has also been withdrawn at the request of the company as there is no amount outstanding against the rated instrument.

In arriving at the rating of HMPL, ICRA has taken a consolidated view of HPCL-Mittal Energy Limited [HMEL – rated [ICRA]AA (Positive)] and HMPL because of the synergies between them. HMPL has a Pipeline Usage agreement with HMEL, with pipeline charges ensuring adequate debt servicing for HMPL, even if there is no crude oil offtake by HMEL but the pipeline is made available by HMPL. Further, HMPL plays a strategic role for the parent as it is critical for the receipt and transportation of crude oil ensuring smooth operations of HMEL refinery, situated at Bhatinda, Punjab.

The revision in the long-term rating of HMPL follows the upgrade in the rating of HMEL. The revision reflects favourable outlook on gross refining margins (GRMs) and anticipated healthy cash accruals of HMEL over the medium-term. The revision also factors in stabilised refining operations with improvement in operational indicators for the last two years along with material improvement in profitability, capital structure, and debt protection metrics of the company on a consolidated basis in FY2016. Although due to high capital cost, HMEL requires to report relatively higher break-even GRMs for adequate debt servicing; the risk has moderated due to the company's efforts through refinancing/repayment of loans leading to lower repayment burden over the medium-term and longer tenure of repayments. The positive outlook reflects ICRA's expectations of further improvement in the company's key debt coverage metrics in the near to medium term on the back of anticipated increase in profits and cash accruals following completion of ongoing expansion project.

The rating continues to take into account high complexity level of the HMEL's refinery, long and established track record of Hindustan Petroleum Corporation Limited (HPCL) in the domestic refining and marketing business, smooth product off-take with HPCL in line with take or pay agreement, fiscal incentives from the Government of Punjab (GoP), and favourable location of the refinery, as it is situated in the petroleum products-deficit and the high growth northern region. However, the rating is constrained by the elevated capital structure due to erosion in the networth resulting from past losses and vulnerability of the company's profitability to the global refining margin cycle, import duty protection, and INR-USD parity levels. The rating also considers the sensitivity of profits to crude oil price volatility as inventory losses/gains are likely to be higher for landlocked refineries like HMEL in a scenario of sharp fall/rise in crude oil prices because of high inventory holdings. The rating also factors in the residual project implementation and integration risks related to the ongoing expansion project to increase refining capacity to 11.3 million metric tonnes per annum (MMTPA) from current 9 MMT. Sustenance of healthy cash generation over the medium term and its use for deleveraging the balance sheet would be a key rating sensitivity for upgrade of the rating. Conversely, significant debt-funded capital expenditure (capex) plans leading to deterioration in the capital structure and debt protection metrics could be sensitivity for revision in the rating outlook to Stable from Positive.

### Company Profile

HPCL-Mittal Pipelines Ltd (HMPL) is a wholly owned subsidiary of HPCL-Mittal Energy Limited (HMEL), a joint venture between Hindustan Petroleum Corporation Limited (HPCL) and Mittal Energy Investment Pte Limited (MEIL), Singapore - a L. N. Mittal group company to set up a refinery complex with 9 million metric tonnes per

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions please refer to ICRA's Website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

annum (MMTPA) capacity at Bhatinda (Punjab). To meet the crude receipt & storage requirements as well as to transport the crude for HMEL refinery, HMPL has set up a Crude Oil Terminal (COT) and Single Buoy Mooring (SBM) at Mundra Port, Gujarat and a 1017 km cross-country pipeline for transportation of crude oil from Mundra to Bathinda.

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