Tata Petrodyne Limited

November 30, 2018

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	65.00	[ICRA]A1+&; placed under rating watch with developing implications
Long-Term Non-Fund Based Limits (Interchangeable)	(65.00)	(65.00)	[ICRA]A+&; placed under rating watch with developing implications
Total	**65.00**	**65.00**	

*Instrument details are provided in Annexure-1

Rationale

The ratings have been placed under rating watch with developing implications on account of the agreement signed between Tata Sons Private Limited (parent of Tata Petrodyne Limited) and Invenire Energy Private Limited (a private equity firm) for the proposed sale of Tata Petrodyne Limited (TPL) to the latter. As per the agreement, the transaction has to be executed by August 1, 2019, post the receipt of necessary regulatory clearances. ICRA would continue to monitor any developments in this regard and evaluate their impact on the credit profile of the company before finalising its rating action on the company.

The ratings at present continue to take into account TPL's strong parentage by virtue of being a wholly-owned subsidiary of Tata Sons Private Limited ([ICRA]AAA (Stable)/ [ICRA]A1+) and its high financial flexibility given its large liquid investment holdings (cash and cash equivalents of Rs. 142 crore as of September 30, 2018). The ratings also favourably take into account the company's moderately long track record in the exploration & production (E&P) business. The company has witnessed healthy ramp up in oil production levels in CB-OS-2 (the Cambay Basin Offshore blocks in India) in recent quarters which coupled with the increase in global crude oil prices would support the profitability levels of the company. The ratings also consider the improvement in the company's leveraged full cycle cost ratio in FY2018 due to an increase in sales realisation and optimisation of the cost structure.

The ratings are, however, constrained by the small scale of operations and high cost structure of the company as an E&P player. The company's reserve size remains small, although there has been an improvement in the company's reserve life index and reserve replacement ratio due to an addition in the proved and proved & developed (PD) reserves in FY2018. The company's future revenue growth is partly dependent on its proposed exploratory and development activities which entail sizeable capex commitments. In addition, TPL's operations remain vulnerable to the geological, technology and execution risks inherent in E&P activities and the company's overseas expansion strategy could entail significant geological, geo-political and event risks. TPL's financial profile is also exposed to the volatility in crude oil prices.

Key rating drivers

Credit strengths

Strong parentage – Tata Petrodyne Limited is a part of the Tata Group and a wholly-owned subsidiary of Tata Sons Private Limited thereby providing the company with high financial flexibility. Tata Sons Private Limited, however, plans to divest its stake in TPL and has signed an agreement with Chennai-based Invenire Energy Private Limited for the same subject to receipt of necessary regulatory approvals.

Upside from increase in production at CB-OS-2 blocks – With the completion of the company's four-well drilling program at the CB-OS-2 (Cambay Basin Offshore) and Merangin (Indonesia) blocks, there has been an addition of ~1.5 million barrels to the company's proved reserves. Also, the company's production from the CB-OS-2 blocks is expected to increase materially in FY2019 leading to an expected increase in the company's sales and profitability**.**

Moderately long experience and track record in the E&P business – The company has been in the E&P business for over two decades now although its experience as an E&P operator is rather limited as the company's business model has been based on holding participating interests in oil & gas blocks in consortium with other experienced E&P players.

High financial flexibility – The company enjoys high financial flexibility on account of its parentage. It also has significant cash surplus of Rs. 142 crore on consolidated level as of September 30, 2018.

Credit challenges

Small scale as an E&P player – While there has been an increase in the company's total reserve base in FY2018, the company's proved and PD reserves remain small in comparison to other global and domestic E&P players.

Moderate consolidated financial profile – The company's Indonesian assets are still making losses due to high opex and high fiscal levies on the E&P blocks coupled with high indebtedness due to reliance on debt for funding the acquisition. In April 2016, TPL's wholly-owned subsidiary, Dian Energy B.V., successfully refinanced its US$40 million term loan outstanding (backed by corporate guarantee from TPL) with a new loan facility having a 3.5-year moratorium.

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 exacerbated by the relatively smaller scale of TPL's operations.

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

Liquidity Position:

The company has a healthy liquidity profile supported by sizeable cash balances and liquid investments (at Rs. 142 crore as on September 30, 2018 on consolidated basis) and low working capital intensity given the nature of its operations. Further, the cash flow position of the company improved in FY2018 and H1 FY2019 due to the rising crude prices, depreciation of Indian rupee and increase in production levels at its CB-OS-2 blocks.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Upstream Oil Companies](#) [Impact of Parent or Group Support on an Issuer's Credit Rating](#)
Parent/Group Support	Parent Company: Tata Sons Private Limited We expect Tata Petrodyne Limited's parent, Tata Sons Private Limited [rated [ICRA]AAA (Stable)/ [ICRA]A1+], to be willing to extend financial support to Tata Petrodyne Limited, should there be a need. Both Tata Petrodyne Limited and Tata Sons Private Limited share a common name, which in ICRA's opinion would persuade Tata Sons Private Limited to provide financial support to Tata Petrodyne Limited to protect its reputation from the consequences of a group entity's distress. ICRA will reassess the support once the proposed sale transaction is consummated resulting in a new sponsor.
Consolidation / Standalone	The rating is based on the consolidated financial statements of the issuer which take into account the company's wholly-owned subsidiary, Dian Energy B.V. Tata Petrodyne Limited has provided an unconditional and irrevocable guarantee for the US$ 20 million loan facility of Dian Energy B.V.

About the company:

Incorporated in 1993, Tata Petrodyne Limited (TPL), is engaged in the exploration and production (E&P) of oil and gas. The company is a wholly-owned subsidiary of Tata Sons Private Limited ([ICRA]AAA (stable) / [ICRA]A1+), the promoter company of the Tata Group. As an E&P company, TPL'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, TPL holds interests in three oil and gas blocks in India and one oil block in Tanzania, while its wholly-owned subsidiary viz. Dian Energy B.V. and further step-down subsidiaries, all based in Netherlands, hold interest in two oil and gas blocks 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. TPL had acquired a 25% equity stake in two blocks in Tanzania through a farm-out agreement with Swala Oil and Gas (Tanzania) Plc. The company surrendered one of the blocks in January 2016 citing logistical challenges in working the field.

Key financial indicators (Consolidated, Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	157.9	194.9
PAT (Rs. crore)	-43.1	-0.7
OPBDIT/OI (%)	-5.9%	19.8%
RoCE (%)	-5.3%	5.6%
Total Debt/TNW (times)	1.7	1.8
Total Debt/OPBDIT (times)	-27.6	6.8
Interest coverage (times)	-0.6	2.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
					Date & Rating		Date & Rating in FY2018	Date & Rating in FY2016	Date & Rating in FY2015
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	November 2018	June 2018	April 2017	January 2016	December 2014
1	Non-Fund Based Limits	Short-Term	65.00	-	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-Fund Based Limits*	Long-Term	(65.00)	-	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

**The long-term limits are interchangeable with the short-term limits*

& - under rating watch with developing implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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	Non-Fund Based Limits	-	-	-	65.00	[ICRA]A1+&
NA	Non-Fund Based Limits*	-	-	-	(65.00)	[ICRA]A+&

** The long-term limits are interchangeable with the short-term limits*

Source: Tata Petrodyne Limited

Annexure-2: List of entities considered for consolidated analysis

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

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