

December 20, 2019

Bharat Oman Refineries Limited: Rating assigned to commercial paper programme

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	300.0	[ICRA]A1+; assigned
Total	300.0	

*Instrument details in Annexure

Rationale

The assigned rating reflects the strong operational performance of the refinery operations of BORL characterised by robust gross refining margins (GRMs), distillate yield and capacity utilisation levels, resulting in strong cash generation. The capacity of the refinery was expanded to 7.8 million tonnes per annum (MMTPA) from 6.0 MMTPA in October 2018. As a part of the expansion, the complexity of the refinery was also raised to an NCI¹ of 11.3 from 10.3 prior to the expansion. The high refinery complexity has ensured high levels of GRMs for BORL which have remained above US\$ 9 per barrel for the last four fiscals. The GRMs for H1 FY2020, however, have declined to US\$ 6.2 per barrel, in line with the industry, owing to weakness in crack spreads for light and middle distillates. Nonetheless, the rating factors in the expected improvement in the GRMs over the medium term driven by the implementation of International Maritime Organisation (IMO) norms for bunker fuel. This will result in higher crack spreads for diesel, which accounts for over 50% of BORL's product slate. The rating also takes into account BORL's high financial flexibility owing to the strong credit profile of its parent, Bharat Petroleum Corporation Limited (BPCL) and the favourable location of the refinery close to the petroleum product-deficit northern and central region. BORL has strong operational linkages with BPCL and has also received financial assistance from the latter in the form of corporate guarantees and advances. BORL has a take-or-pay agreement with BPCL for marketing of BORL's key products which BPCL uses to cater to the petroleum product-deficit northern and central regions. Moreover, the Board of BORL comprises, among others, top level executives of BPCL.

ICRA, however, notes that the company's profitability is vulnerable to the global refining margin cycle, import duty protection, and INR-USD parity levels. The rating also considers the asset concentration risk from being a single location refinery and the sensitivity of profits to crude oil price volatility as inventory losses/gains are likely to be higher for landlocked refineries like BORL in a scenario of sharp fall/rise in crude oil prices because of high inventory holdings. The company has a moderate financial profile with high leverage. The decline in profitability in FY2019 and H1 FY2020 has led to moderation in BORL's debt coverage metrics. Nonetheless, the company is expected to meet the same through internal accruals and/or refinancing.

While assigning the ratings, ICRA has noted the upcoming divestment of the government of India's stake in BPCL for which a number of large international players could be among the prospective buyers. While there is uncertainty regarding the impact of the transaction on the standalone credit profile of BORL, given the favourable location and high quality of the asset, it is expected that BORL will continue to avail the benefits. Nonetheless, the impact of the privatisation on BORL's credit profile will remain a key monitorable.

¹ Nelson Complexity Index

Key rating drivers

Credit strengths

Benefits accruing from strong parentage in the form of BPCL - BORL has a strong parentage in the form of BPCL which has a long and established track record in the domestic refining and marketing business. BORL has strong operational linkages with BPCL including a take-or-pay agreement with the latter for off-take of liquid fuels. BPCL relies on BORL's output to cater to the demand in the petroleum product-deficit northern and central regions. Further, BPCL has provided financial support to BORL in the form of advances and corporate guarantees thereby leading high financial flexibility for BORL.

Healthy operational profile - BORL's refinery has been consistently delivering high distillate yield of ~83% with a fuel and loss component of ~7.5% over the past few years. The refinery's capacity utilisation has been consistently above 100% over the past few years and was 112% in FY2018. However, the same dropped to 89% in FY2019 owing to the shutdown undertaken for the capacity expansion to 7.8 MMTPA from 6.0 MMTPA.

Healthy GRM levels owing to high refinery complexity – BORL's refinery had a high complexity with an NCI of 10.3 and the same was further raised to 11.3 during the capacity expansion in FY2019. The high complexity allows the refinery to process a wider range of crude oil grades. With the refinery being able to process a higher proportion of heavy and sour crude grades, it is able to generate higher GRMs. BORL has consistently maintained a healthy premium over benchmark Singapore GRMs.

Location of the refinery favorable to cater to northern and central regions - BORL's refinery caters to the petroleum products-deficit northern and central regions of the country, where the demand has been growing at a healthy rate. The demand in the northern and central regions surpasses the combined capacity of the refineries situated in these regions, and hence, the products are transported from the western part of the country to fulfil the local demand.

Credit weaknesses

Vulnerability of profits to the international refining margin cycle, forex fluctuations, and import duty differential; sensitivity to crude oil prices with inventory losses being higher for inland refineries – Given the nature of the business, the company remains exposed to the movement in the commodity price cycles and the volatility in the crude prices. The company's GRM levels witnessed a decline in H1 FY2020 owing to weak crack spreads for light and middle distillates. Any adverse changes in the import duty on its products would also have an impact on the company's domestic sales though the import duty differential has remained at the same level over the last few years and is not typically subject to frequent changes. The company's profitability is also exposed to the forex rates (INR-US\$) given the company imports its crude requirement, products are priced on trade/import parity basis and forex borrowings. As BORL's refinery is not in a coastal region, it becomes relatively more vulnerable to crude oil price volatility as inventory gains/losses are likely to be higher for such refineries in a scenario of sharp fall/rise in crude oil prices because of high inventory holdings.

Asset concentration risk being a single location refinery - BORL has refining operations only at Madhya Pradesh and derives all its revenues from the same. The operations at one location expose the company to asset-concentration risks and the associated force majeure risks. Nonetheless, the risk is partly mitigated by various insurance covers that address these risks.

Moderate financial profile – BORL's financial profile is moderate characterised by moderately high leverage of 2.3 times as of March 31, 2019. While the company's profitability and cash accruals have remained healthy (except in FY2019 where the profitability was impacted due to decline in GRM levels and lower capacity utilisation levels on account of shut

down for capacity expansion), the company's high debt levels have led to moderation in the company's debt coverage metrics. However, the company enjoys a high degree of financial flexibility and is expected to generate steady cash accruals in the medium term.

Uncertainty associated with BPCL's privatisation process: ICRA notes the proposed divestment of the government of India's stake in BPCL for which a number of large international players could be the prospective buyers. While there is uncertainty regarding the impact of the transaction on the standalone credit profile of BORL, given the favourable location and high quality of the asset, it is expected that BORL will continue to avail the benefits that it currently does. Nonetheless, the impact of the privatisation on BORL's credit profile will remain a key monitorable.

Liquidity Position: Strong

BORL has a healthy liquidity profile supported by moderate utilisation of working capital limits and generation of healthy cash accruals. The company enjoys a high degree of financial flexibility and has been able to successfully refinance its borrowings in the past. The company has ~Rs. 1,600 crore of debt repayment obligations falling due in FY2021 which are expected to be met through internal accruals and partly through refinancing.

Rating Sensitivities

Negative triggers – a) Any adverse change in shareholding of BPCL or weakening of the credit risk profile of BPCL, b) weakening of linkages with the parent, and c) any material debt-funded capex leading to increase in leverage and moderation of debt coverage metrics.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Downstream Oil Companies
Parent/Group Support	Parent - Bharat Petroleum Corporation Limited We expect BORL's JV parent, BPCL to remain willing to extend financial support to BORL, should there be a need, given the high strategic importance that BORL holds for BPCL and the strong operational linkages between the two companies
Consolidation / Standalone	For arriving at the rating, ICRA has considered the standalone financial profile of BORL.

About the company:

Bharat Oman Refineries Limited (BORL) was formed as an equal joint venture between BPCL and Oman Oil Company and was incorporated in 1994. In June 2011, BORL commissioned its refinery with a capacity of 6 million tonnes per annum (MMTPA) at Bina, Madhya Pradesh. The capacity of the refinery was expanded to 7.8 MMTPA in October 2018. The company also has a single point mooring (SPM) system and a crude oil terminal in Vadinar and a 937-km cross-country pipeline from Vadinar, Gujarat to Bina. The facilities at Bina also include a 99 MW captive power plant for supplying steam and power to various processing units. The company has a take-or-pay agreement with BPCL for the off-take of BORL's liquid fuel products.

Key Financial Indicators - audited

	FY2018	FY2019
Operating Income (Rs. crore)	21,008.9	23,905.9
PAT (Rs. crore)	983.7	106.7
OPBDIT/ OI (%)	12.4%	7.6%
RoCE (%)	17.0%	6.6%
Total Debt/ TNW (times)	2.0	2.3
Total Debt/ OPBDIT (times)	3.3	5.5
Interest coverage (times)	4.2	2.7
NWC/ OI (%)	10%	13%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Current Rating (FY2020)		Chronology of Rating History for the past 3 years		
				Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
1 Commercial Paper	Short Term	300.0	-	20-Dec-19 [ICRA]A1+	-	-	-	-

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
--	Commercial Paper	--	--	7-365 days	300.0	[ICRA]A1+

Source: Bharat Oman Refineries Limited

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Anubha Rustagi
+91 22 6169 3341
anubha.rustagi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents