

December 31, 2019

Tata Petrodyne Limited: Ratings downgraded to [ICRA]A(Stable)/[ICRA]A1 from [ICRA]A+(Stable)/ [ICRA]A1+

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; Downgraded from [ICRA]A1+ and removed from watch with developing implications |
| Long-Term Non-Fund Based Limits (Interchangeable**) | (65.00) | (65.00) | [ICRA]A (Stable); Downgraded from [ICRA]A+ and removed from watch with developing implications |
| Total | 65.00 | 65.00 | |

*Instrument details in Annexure; **with short-term limits

Rationale

The downgrade in ratings takes into account the upcoming change in ownership of Tata Petrodyne Limited (TPL). In August 2018, Tata Sons Limited entered into an agreement with PE firm, Invenire Energy Private Limited, for sale of its entire 100% stake in TPL to Invenire Energy effective from April 1, 2018. The transaction was delayed due to delay in receipt of certain regulatory approvals and is expected to be completed by the end of January 2020. Post the completion of the transaction, Invenire Energy will own and operate all assets of TPL in India and Indonesia while TPL's block in Tanzania is expected to be excluded from the transaction given delays in regulatory approvals. The earlier ratings used to derive comfort from the strong parentage of TPL in the form of Tata Sons Limited, however, the same will now be replaced by Invenire Energy Private Limited. Nonetheless, the operational expertise of the team at Invenire Energy and the strategic involvement of the new parent are expected to deepen the company's presence in the oil and gas exploration and production business and drive improvement in the operational and financial profile of the company.

The ratings, favorably consider, the significant improvement in the company's financial profile characterised by increase in operating income (105% YoY in FY2019) and profitability (285% YoY in FY2019) leading to healthy cash accruals and improvement in the debt coverage metrics. The same has been driven by a 51.3% YoY increase in consolidated production levels and a healthy increase in average crude oil and gas realization in FY2019 coupled with cost optimisation, especially at the company's operations in Merangin, Indonesia. The improvement in profitability has continued in H1 FY2020 with a 41.1% YoY increase in operating profits. Further, the company's liquidity position remains healthy with cash and cash equivalents of Rs. 254 crore as of October 2019. The ratings also factor in the upside from increase in production at the company's Merangin block in Indonesia and resumption of production at the PY-3 block in India where production had been suspended since 2011 due to certain regulatory issues. The ratings also take into account the company's moderately long track record in the exploration & production (E&P) business.

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

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. Nevertheless, with change in ownership, the company is expected to become the operator in some blocks.

Healthy financial profile – There has been a significant improvement in the company's financial profile in FY2019 and H1 FY2020 characterised by increase in operating income and profitability leading to healthy cash accruals and improvement in debt coverage metrics. The same has been driven by increase in production levels and average realisation along with higher operational efficiency leading to cost optimisation.

Upside from increase in production at Merangin block and resumption of production at PY-3 block – 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 in FY2018. The company's production at Merangin, Indonesia is expected to increase significantly with the ongoing well drilling programme being undertaken by the company. Further, production at the PY-3 block is expected to resume in early FY2021 (production at the block had been suspended since 2011) with the approvals for the Field Development Plan in place. Increase in crude oil output with contribution from the PY-3 block will lead to an increase in scale of operations and higher profitability.

Credit weaknesses

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.

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. Additionally, an upstream company is exposed to geological risks that are inherent in E&P activities

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

Liquidity Position: Adequate

TPL has a healthy liquidity profile supported by sizeable cash and cash equivalents of Rs. 254 crore as of October 2019 and low working capital intensity given the nature of its operations. The company has repayment obligations of US\$ 16 million in FY2021 and FY2022, each with respect to the term loan on the books of Dian Energy B.V. which is backed by a corporate guarantee from Tata Petrodyne Limited. The company also capex plans for exploratory and drilling activities in

multiple blocks. However, the company is expected to generate healthy cash accruals and should therefore, be able to fund the same through internal accruals.

Rating Sensitivities

Positive triggers - Increase in scale of reserves leading to increase in production and improvement in reserve metrics such as Reserve Life Index etc. and significant increase in scale and cash accruals while maintaining a comfortable capital structure

Negative triggers – a) Significant decline in crude oil prices and profitability leading to lower cash accruals; b) Lower-than-expected ramp up in production and/or higher-than-expected debt-funded capex leading to deterioration in the debt coverage metrics

Analytical approach:

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Upstream Oil Companies |
| Parent/Group Support | NA |
| Consolidation / Standalone | For arriving at the ratings, ICRA has considered the consolidated financial profile of Tata Petrodyne Limited. As of March 31, 2019, TPL had one wholly-owned subsidiary. The subsidiary of TPL that has been considered is enlisted in Annexure-2. |

About the company:

Incorporated in 1993, Tata Petrodyne Limited (TPL), is engaged in the exploration and production (E&P) of oil and gas. 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.

The company is a wholly-owned subsidiary of Tata Sons Limited, however, the entire stake of Tata Sons Limited in TPL is being sold to Invenire Energy Private Limited, a Chennai-based PE firm that is focused on investments in the energy sector in South-East Asia. The transaction for change in ownership is expected to be completed by end of January 2020.

Key Financial Indicators (consolidated) - audited

| | FY2018 | FY2019 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 194.9 | 399.6 |
| PAT (Rs. crore) | 3.7 | 83.9 |
| OPBDIT/ OI (%) | 19.3% | 36.3% |
| RoCE (%) | 7.1% | 32.5% |
| Total Debt/ TNW (times) | 1.5 | 1.1 |
| Total Debt/ OPBDIT (times) | 6.8 | 1.9 |
| Interest coverage (times) | 2.3 | 9.0 |
| NWC/ OI (%) | 3% | -4% |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| | | Current Rating (FY2020) | | | Chronology of Rating History for the Past 3 Years | | | | |
|------------|------------------------|--------------------------|--------------------------------|---------------|---|-------------------------|-------------------------|-------------------|---|
| Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2019 | Date & Rating in FY2018 | Date & Rating in FY2017 | | |
| | | | | 31-Dec-19 | 30-Nov-18 | 01-Jun-18 | 05-Apr-17 | | |
| 1 | Non-Fund Based Limits | Short-Term | 65.00 | - | [ICRA]A1 | [ICRA]A1+& | [ICRA]A1+ | [ICRA]A1+ | - |
| 2 | Non-Fund Based Limits* | Long-Term | (65.00) | - | [ICRA]A (Stable) | [ICRA]A+& | [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 (Stable) |

Source: Tata Petrodyne Limited; * The long-term limits are interchangeable with the short-term limits

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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