Hindustan Petroleum Corporation Limited

January 24, 2018

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Issuer Rating	--	[ICRA]AAA (Stable)

Material Event

Oil and Natural Gas Corporation Limited (ONGC) has entered into a share purchase agreement with the President of India for the acquisition of the latter’s 51.11% stake in Hindustan Petroleum Corporation Limited (HPCL). The total consideration for the share purchase would be Rs. 36,915 crore (i.e. Rs. 473.97 per share). The acquisition is proposed to be completed by the end of January 2018. ONGC would not be required to make an open offer to HPCL’s minority shareholders.

Impact of the Material Event

The issuer rating remains unchanged at the earlier level of [ICRA]AAA (Stable) as the acquisition would not have any material impact on the credit profile of the entity. HPCL would retain its independent identity and remain a central public sector undertaking. Nevertheless, ICRA expects HPCL to benefit from ONGC’s parentage in terms of crude sourcing and other synergies from the latter’s stake in refining and petrochemical ventures. ICRA notes that the integration would benefit ONGC in the form of improved business risk profile through forward integration, reduced volatility in earnings and increased ability for overseas E&P acquisitions, albeit its financial profile will be weakened somewhat due to debt to be taken for the acquisition.

The rating continues to reflect HPCL’s strategic importance in the domestic energy sector, its established brand name and leading position in the domestic oil marketing business. The rating further factors in the coastal location of the company’s refineries which provides logistical advantages for import of crude oil and export of petroleum products. The rating also takes into account the strong operational efficiencies of the company and the steady growth in its marketing volumes driven by its growing network of retail outlets and strong demand indicators for motor spirit and diesel. The liquidity profile of HPCL is robust backed by a sizeable portfolio of liquid investments (~Rs. 5,100 crore as of March 31, 2017) and adequate availability of working capital bank limits. Nonetheless, HPCL will be exposed to project implementation risks as it is in the midst of implementing large projects spanning the entire downstream value chain on its own books as well as through subsidiaries and joint ventures (JV).

The previous detailed rating rationale is available on the following link: Click here

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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.

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