Ratings

CRISIL
An S&P Global Company

Rating Rationale

April 27, 2018 | Mumbai

Hindustan Petroleum Corporation Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.45000 Crore**
Long Term Rating	**CRISIL AAA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.975 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.2000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Fixed Deposit Programme	**FAAA/Stable (Reaffirmed)**
Rs.15000 Crore Commercial Paper Programme	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has reaffirmed its ratings on the bank facilities and debt instruments of Hindustan Petroleum Corporation Limited (HPCL) at 'CRISIL AAA/FAAA/Stable/CRISIL A1+'. Along with other oil and marketing companies (OMCs), HPCL remains strategically important to the Government of India (GoI) given the role that OMCs play in India's economic development. The ratings hence continue to reflect the strategic importance to, and expectation of continued support from, the GoI. The ratings also factor in a dominant position in the oil refining and marketing sector, and strong operating efficiency. These strengths are partially offset by exposure to project implementation risks, and an average financial risk profile.

Analytical Approach
For arriving at the ratings, CRISIL has combined the business and financial risk profiles of HPCL and its subsidiaries and joint ventures (JVs). The subsidiaries have been fully consolidated and the JVs have been proportionately consolidated. CRISIL believes the subsidiaries and JVs are of strategic importance to HPCL's business risk profile, as they will reduce dependence on other refiners to source products for retail operations. Furthermore, the ratings factor in the support received from the government with managerial control and majority ownership through ONGC, a public sector undertaking of GoI.

Key Rating Drivers & Detailed Description
Strengths
*** Strategic importance to, and continued support from, GoI**
Oil refining and marketing activity is strategic for India's economic development. Currently, oil marketing companies (OMCs) dominate the domestic markets for key petroleum products, such as motor sprits, high-speed diesel, superior kerosene oil (SKO), and liquefied petroleum gas (LPG). Unhindered supply of these products in the domestic market is contingent on the smooth operations of OMCs such as HPCL. The company should therefore remain strategically important to GoI, and continue to play a key role in implementing the government's socio-economic policies. Any diminution in the strategic importance, or in GoI's management control will remain a key rating sensitivity factor.

GoI has also supported the OMCs through budgeted subsidies and discounts from upstream companies, minimising their sales-related under-recovery burden. Post de-regulation of diesel and favourable crude prices in the past, coupled with reduced consumption of subsidised LPG, the under-recoveries of OMCs have declined significantly. The government is likely to continue to support HPCL by absorbing a large portion of its sales-related under-recoveries, if any. Any change in the adequacy and timeliness of GoI support will constitute a key rating sensitivity factor.

*** Established retail network and branding initiatives, supporting revenue growth**
The company had a refining capacity share of around 10% and a market share of 23.6% of the domestic petroleum market as on December 31, 2017. The market position is underpinned by its entrenched marketing and distribution infrastructure, with 15,062 retail outlets. It also had an LPG customer base of 6.8 crore as of February 2018. The company has undertaken aggressive branding and marketing exercises and has been expanding its retail network. These initiatives should help maintain the established brand position in the domestic petroleum market.

*** Strong operating efficiency**
The high capacity utilisation of refineries help maintain strong operating efficiency. The refineries at Mumbai and Visakhapatnam have consistently had high utilisation rates, exceeding 100% in fiscal 2017. The refineries had a throughput of 18.20 million tonne in fiscal 2017, against 17.23 million tonne in fiscal 2016 and 16.18 million tonne in fiscal 2015. Furthermore, proximity of the refineries to the coast provides a logistical advantage, and helps control transportation costs in procuring crude. Additionally, the company continually improves the refinery configuration, adding to operating capability. Continued improvement in the gross refining margin is expected over the medium term, supported by modernisation and capacity expansion of refineries.

Weakness
*** Average financial risk profile**
The gearing is high and the return on capital employed modest. The adjusted gearing was over 1 times as on March 31, 2017,

against over 2 times a year earlier. CRISIL believes the financial risk profile will remain average, with a gearing of more than 1 time, over the medium term.

*** Exposure to project implementation risks, given the large investment plans**
The company is currently undertaking a number of projects, including increasing refining capacities at Mumbai and Visakhapatnam, setting up a greenfield refinery at Barmer, Rajasthan, modernising and augmenting pipeline infrastructure, and expanding its presence in the natural gas sector. However, experience in modernising existing refineries and pipeline infrastructure will be beneficial. Nevertheless, project cost and timelines, and stabilisation of operations after completion will be key monitorables.

*** Limited pricing flexibility for SKO and LPG**
The company is also exposed to under-recoveries on account of controlled prices of domestic SKO and domestic LPG. While GoI has provided budgetary support, the absence of an institutionalised mechanism to meet under-recoveries has delayed subsidy receipts in the past. This risk is partially offset by de-regularising of diesel (which was a major contributor to under-recoveries), implementation of the Direct Benefit Transfer scheme (DBT; or Pratyaksha Hastaantarit Laabh - PAHAL) for LPG, ongoing implementation of DBT for SKO, and clarity given by GoI on subsidy sharing. These initiatives will help in streamlining the mechanism for meeting under-recoveries; however, timely receipt of subsidy and a well-defined institutionalised mechanism will be necessary for the financial health of the sector on a long-term sustainable basis.

Outlook: Stable
CRISIL believes HPCL will continue to benefit over the medium term from continued government support owing to its strategic and economic importance, and criticality of the sector to GoI.

Downside scenario
* Significant increase in sales-related under-recoveries on account of any adverse movement in crude oil price and foreign exchange rates, with inadequate pass through in retail price or compensation from GoI.

About the Company
HPCL, was established in 1974, following the nationalisation and amalgamation of Esso Eastern Inc and Lubes India Ltd with the takeover of Caltex Oil Refining (India) Ltd. In January 2018, Oil and Natural Gas Corporation Ltd (ONGC) acquired 51.11% stake in HPCL from GoI. HPCL is an integrated refining and marketing company. It has substantial oil marketing operations and is the third-largest oil refining and marketing company in India. It operates a refinery in Mumbai, which has an installed capacity of 7.5 million tonne per annum (mtpa), and a refinery in Visakhapatnam with installed capacity of 8.3 mtpa; these refineries account for 6.4% of the country's total installed capacity. The company also has a 11.3 mtpa refinery in Bathinda, Punjab, through a JV with Singapore-based Mittal Energy Investments Pte Ltd. HPCL is also setting up a grass-root greenfield refinery-cum-petrochemical complex, with capacity of 9 mtpa in Barmer district, Rajasthan, through HPCL Rajasthan Refinery Limited (HRRL, rated 'CRISIL AA/Stable'), a JV with Government of Rajasthan. The company has a wide distribution and marketing infrastructure network across India, including a network of cross-country pipelines, terminals, depots, and 15,062 retail outlets.

Key Financial Indicators*

As on / for the period ended March 31		2017^	2016
Revenue (reported)	Rs crore	2,14,222	1,97,964
Profit after tax (reported)	Rs crore	8,236	4,675
PAT margins	%	3.84	2.36
Adjusted Debt/Adjusted Net worth*	Times	1.08	2.16
Interest coverage*	Times	19.36	6.42

**Numbers reflects analytical adjustments made by CRISIL Ratings;*
^Historical financial statements prepared under Indian GAAP vary from financial statements prepared and presented in accordance with IndAS, fiscal 2017 onwards

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Assigned with Outlook
NA	Debentures^	NA	NA	NA	2000	CRISIL AAA/Stable
INE094A07053	Debentures@	13-Mar-2013	8.77%	13-Mar-2018	975	CRISIL AAA/Stable
NA	Commercial Paper	NA	NA	7-365 days	15000	CRISIL A1+
NA	Fixed Deposits	NA	NA	NA	-	FAAA/Stable
NA	Cash Credit*	NA	NA	NA	4000	CRISIL AAA/Stable
NA	Fund-Based Facilities	NA	NA	NA	24000	CRISIL AAA/Stable
NA	Non-Fund-Based Limit	NA	NA	NA	17000	CRISIL A1+

^Yet to be issued
**Fungible with bank guarantee*
@CRISIL is awaiting independent confirmation of redemption before withdrawing ratings on these instruments

Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial	ST	15000.00	CRISIL A1+			24-08-17	CRISIL A1+	26-12-16	CRISIL A1+	09-11-15	CRISIL A1+	CRISIL A1+

Paper												
						01-08-17	CRISIL A1+	04-01-16	CRISIL A1+	16-06-15	CRISIL A1+	
Fixed Deposits	FD	0.00	FAAA/Stable			24-08-17	FAAA/Stable	26-12-16	FAAA/Stable	09-11-15	FAAA/Stable	FAAA/Stable
						01-08-17	FAAA/Stable	04-01-16	FAAA/Stable	16-06-15	FAAA/Stable	
Non Convertible Debentures	LT	0.00 27-04-18	CRISIL AAA/Stable			24-08-17	CRISIL AAA/Stable	26-12-16	CRISIL AAA/Stable	09-11-15	CRISIL AAA/Stable	CRISIL AAA/Stable
						01-08-17	CRISIL AAA/Stable	04-01-16	CRISIL AAA/Stable	16-06-15	CRISIL AAA/Stable	
Fund-based Bank Facilities	LT/ST	28000.00	CRISIL AAA/Stable			24-08-17	CRISIL AAA/Stable	26-12-16	CRISIL AAA/Stable	09-11-15	CRISIL AAA/Stable	CRISIL AAA/Stable
						01-08-17	CRISIL AAA/Stable	04-01-16	CRISIL AAA/Stable	16-06-15	CRISIL AAA/Stable	
Non Fund-based Bank Facilities	LT/ST	17000.00	CRISIL A1+			24-08-17	CRISIL A1+	26-12-16	CRISIL A1+	09-11-15	CRISIL A1+	CRISIL A1+
						01-08-17	CRISIL A1+	04-01-16	CRISIL A1+	16-06-15	CRISIL A1+	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Cash Credit*	**4000**	**CRISIL AAA/Stable**	**Cash Credit***	**4000**	**CRISIL AAA/Stable**
Fund-Based Facilities	**24000**	**CRISIL AAA/Stable**	**Fund-Based Facilities**	**24000**	**CRISIL AAA/Stable**
Non-Fund Based Limit	**17000**	**CRISIL A1+**	**Non-Fund Based Limit**	**17000**	**CRISIL A1+**
Total	**45000**	**--**	**Total**	**45000**	**--**

**Fungible with bank guarantee*

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for Petrochemical Industry
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support

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