

Rating Rationale

May 31, 2024 | Mumbai

Hindustan Petroleum Corporation Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.50000 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Fixed Deposits	CRISIL AAA/Stable (Reaffirmed)
Rs.6000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.1400 Crore (Reduced from Rs.1900 Crore) Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.4000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.10000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.2000 Crore Non Convertible Debentures	Withdrawn (CRISIL AAA/Stable)
Rs.25000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the bank facilities and debt programs of Hindustan Petroleum Corporation Limited (HPCL).

The ratings on NCDs worth Rs 2500 crore (see 'Annexure- Details of Rating Withdrawn') have been **withdrawn** on confirmation from the debenture trustee as these are fully redeemed. The withdrawal is in line with the CRISIL Ratings withdrawal policy.

The ratings continue to reflect HPCL's established network as the third largest fuel retailer in the country as well as its branding initiatives. The ratings also factor in the company's strategic importance to the Government of India (GoI), and expectation of continued support from GoI and parent Oil and Natural Gas Corporation (ONGC).

Operating margins improved sharply in fiscal 2024 with an improvement in operating margin to due to improved marketing margins. Operating margin was substantially impacted in fiscal 2023 due to a significant rise seen in crude oil prices, which could not be passed on to the customers, leading to the marketing margin taking a hit. GRM's moderated from \$12.09/bbl (barrel) in fiscal 2023 to \$ 9.08/bbl in fiscal 2024.

These strengths are however partially offset by exposure to project implementation risks and inherent volatility in the operating profitability, owing to fluctuations in input prices.

Analytical Approach

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

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Strategic importance of HPCL and continued support from GoI

The oil refining and marketing activity is strategic for India's economic development. Oil marketing companies (OMCs) dominate the domestic market for key petroleum products such as motor spirits, high-speed diesel, superior kerosene oil (SKO) and liquefied petroleum gas (LPG). Uninterrupted supply of these products is contingent on smooth operations of OMCs, such as HPCL. The company would, therefore, remain strategically important to GOI, and continue to play a key role in implementing the government's socio-economic policies.

Established position in the oil refining and marketing sector

HPCL has a domestic refining capacity share of 13.44% with the coastal location of the refineries provides logistical advantages for the import of crude oil and export of petroleum products. Both refineries, Mumbai and Vishakhapatnam, have maintained healthy energy consumption levels. Market position is underpinned by an entrenched marketing and distribution infrastructure, with 22,022 retail outlets. The company had a network of 6,349 LPG distributors as of March 2024 and is the 2nd largest LPG distributor in the country. Furthermore, aggressive branding and marketing exercises have been undertaken to expand the retail network. These initiatives should help enhance the strong brand position in the Indian petroleum market.

Weakness:**Exposure to project implementation risk, given the large investment plans**

The company is undertaking several projects, including modernization and capacity expansion at the Mumbai and Visakhapatnam refineries, setting up a greenfield refinery in Barmer, Rajasthan, modernization and augmentation of the pipeline infrastructure, and expansion in the natural gas sector. HPCL's experience in implementing and operating large projects should hold the company in good stead. Nevertheless, project cost and timelines, and stabilization of operations after completion will continue to be key monitorable. Consolidated gearing (CRISIL adjusted numbers) improved for the company to around 1.38 times as on March 21, 2024 from 2.29 times as on March 31, 2023. The Debt metrics of the company have improved following reduction in overall debt from the previous fiscal and the company continues to derive benefits from financial flexibility being GOI undertaking and in the capital market resulting in its ability to raise funds at a short notice and at fine rates. Going forward, the degree of reliance on debt to meet capital expenditure (capex) needs for the company will remain a key monitorable.

Susceptibility to volatility in crude oil prices

Crude oil prices have been volatile over the past few years. Prices of crude oil for Indian basket fell sharply to a low of around \$20 per bbl in April 2020 before rising sharply to over \$110 per bbl in March 2022; average procurement price stood at around \$93 per bbl in fiscal 2023 and around \$82 per bbl in year-to-date fiscal 2024. Margins were adversely impacted during Q3 of Fiscal FY24 due to fall in crude oil prices leading to significant inventory losses given lag between procurement & delivery due to long voyage time, suppressed margins on certain traded products which were further exacerbated due to planned maintenance shutdown at its Visakhapatnam refinery's crude distillation unit for 55 days.

The ongoing geo-political tensions have again elevated the crude oil prices. HPCL imports the majority of its crude oil requirement, and thus remains susceptible to volatility in the rupee-dollar exchange rate, and a corresponding increase in value of imports compensates these volatilities through marketing margins and their ability to do so will remain a key monitorable.

Liquidity: Superior

HPCL, a Maharatna company, has strong financial flexibility, driven by support from the GoI. The company's portfolio of oil bonds, large unutilized bank limit, and access to low-cost funds from both domestic and overseas markets can help raise resources when needed. Capital expenditure of ~Rs 15,000-18,000 crore in fiscal 2024 including expenditure across JV's is likely to be met through internal accruals and external borrowings.

Environment, social, and governance (ESG) profile

CRISIL Ratings believes the Environment, Social and Governance (ESG) profile of HPCL supports its already strong credit risk profile, which benefits from support from GoI. The oil and gas sector has a significant impact on the environment due to the high carbon emissions of refineries and petrochemical plants. HPCL has focused continuously on minimizing its environmental and social impact.

Key ESG highlights:

- HPCL has set a target to achieve net-zero scope 1 and 2 emissions by 2040. In line with this target, the company has identified various initiatives under categories including use of renewable energy, flare reduction, abating emissions by carbon capture, energy efficiency, and new efficient refining techniques, among others.
- HPCL has an installed renewable capacity of ~208 MW (as on fiscal 2024)
- As of Fiscal 2023, The company achieved energy savings of 85,000 SRFT (standard refinery fuel tonnage) by implementing energy conservation technologies.
- As of Fiscal 2023, HPCL's employee gender diversity (~13%) was higher compared to its listed peers. It reported a higher lost time injury frequency rate (0.16x for employees) than peers and is thus an area of improvement.
- Its governance structure is characterized by ~46% of its board comprising of independent directors, ~15% being woman directors, a dedicated investor grievance redressal mechanism and healthy disclosures.

There is growing importance of ESG amongst investors and lenders. The commitment of HPCL to ESG principles will play a key role in enhancing stakeholder confidence, given the moderate share of market borrowing in debt and access to both domestic and foreign capital markets.

Outlook: Stable

CRISIL Ratings believes HPCL will continue to benefit from its established market position in the oil refining and marketing sector, and support from the GoI owing to its strategic and economic importance.

Rating Sensitivity factors**Downward factors**

- Change in the support philosophy of GoI
- Reduction in ONGC's shareholding below 50%
- Higher-than-expected and sustained deterioration in HPCL's standalone performance

About the Company

HPCL was established in 1974 following the nationalization and amalgamation of Esso Eastern Inc and Lubes India Ltd with the takeover of Caltex Oil Refining (India) Ltd. In January 2018, 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 installed capacity of 9.5 MTPA, and refinery in Visakhapatnam with installed capacity of 13.7 MTPA taking its total capacity to 23.2 MTPA.

The company also has an 11.3 MTPA refinery in Bathinda, Punjab, through a JV with Singapore-based Mittal Energy Investments Pvt Ltd. HPCL is setting up a grass-root greenfield refinery-cum-petrochemical complex, with capacity of 9 MTPA in Barmer through HPCL Rajasthan Refinery Ltd ('CRISIL AA/Stable'), a JV with the Government of Rajasthan. HPCL has a wide distribution and marketing infrastructure network, including a network of cross-country pipelines, terminals, depots and 22,022 retail outlets.

Key Financial Indicators

As on/ for the period ended March 31	Unit	2024	2023
Revenue	Rs.Crore	433,857	440,709
Profit After Tax (PAT)	Rs.Crore	16,014	(6,980)
PAT Margin	%	3.69%	(1.58) %
*Adjusted debt/ Adjusted Networth	Times	1.38	2.29
Interest Coverage	Times	11.93	(1.4)

*CRISIL Ratings adjusted

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of Instruments	Date of allotment	Coupon Rate	Maturity date	Issue Size (Rs.Crore)	Complexity level	Rating assigned with Outlook
NA	Non-Convertible Debentures^^	NA	NA	NA	50	Simple	CRISIL AAA/Stable
NA	Non-Convertible Debentures^^	NA	NA	NA	5,100	Simple	CRISIL AAA/Stable
INE094A08135	Non-Convertible Debentures	4-Nov-2022	7.64%	4-Nov-2027	2,500	Simple	CRISIL AAA/Stable
INE094A08101	Non-Convertible Debentures	28-Feb-2022	6.09%	26-Feb-2027	1,500	Simple	CRISIL AAA/Stable
INE094A08077	Non-Convertible Debentures	4-Aug-2020	5.36%	11-Apr-2025	1,200	Simple	CRISIL AAA/Stable
INE094A08069	Non-Convertible Debentures	6-Mar-2020	7.03%	12-Apr-2030	1,400	Simple	CRISIL AAA/Stable
INE094A08036	Non-Convertible Debentures	14-Aug-2019	7.00%	14-Aug-2024	2,000	Simple	CRISIL AAA/Stable
INE094A08093	Non-Convertible Debentures	7-May-2021	6.63%	11-Apr-2031	1,950	Simple	CRISIL AAA/Stable
INE094A08119	Non-Convertible Debentures	20-Jun-2022	7.81%	13-Apr-2032	1,500	Simple	CRISIL AAA/Stable
INE094A08127	Non-Convertible Debentures	15-Jul-2022	7.12%	30-Jul-2025	1,800	Simple	CRISIL AAA/Stable
INE094A08150	Non-Convertible Debentures	2-Mar-2023	7.74%	2-Mar-2028	1,650	Simple	CRISIL AAA/Stable
INE094A08143	Non-Convertible Debentures	15-Dec-2023	7.54%	15-Apr-2033	750	Simple	CRISIL AAA/Stable
NA	Commercial Paper	NA	NA	7-365 days	25,000	Simple	CRISIL A1+
NA	Fixed Deposits	NA	NA	NA	NA	Simple	CRISIL AAA/Stable
NA	Cash Credit	NA	NA	NA	11,480	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities	NA	NA	NA	1,300	NA	CRISIL AAA/Stable

NA	External Commercial Borrowings*	NA	NA	NA	2,490	NA	CRISIL AAA/Stable
NA	Rupee Term Loan	NA	NA	20-Feb-2025	575	NA	CRISIL AAA/Stable
NA	Non-fund based Limit	NA	NA	NA	19,257	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	1935	NA	CRISIL AAA/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	12963	NA	CRISIL AAA/Stable

*Considering exchange rate of USD 1 = Rs 83

^^Yet to be issued

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
INE094A08028	Non-Convertible Debentures	25-Apr-2019	8.00%	25-Apr-2024	500	Simple	Withdrawn
INE094A08085	Non-Convertible Debentures	23-Oct-2020	4.79%	23-Oct-2023	2,000	Simple	Withdrawn

Annexure - List of Entities Consolidated

Company	% of shareholding	Consolidation
HPCL - Biofuels Limited	100.00	Subsidiary
Prize Petroleum Company Limited	100.00	Subsidiary
HPCL Middle East FZCO	100.00	Subsidiary
HPCL LNG Limited	100.00	Subsidiary
HPCL Renewable & Green Energy Limited	100.00	Subsidiary
HPCL Rajasthan Refinery Limited	74.00	Joint Venture
Hindustan Colas Private Limited	50.00	Joint Venture
South Asia LPG Company Private Limited	50.00	Joint Venture
HPCL-Mittal Energy Limited	48.99	Joint Venture
Aavantika Gas Limited	49.99	Joint Venture
Petronet MHB Limited	50.00	Joint Venture
Godavari Gas Private Limited	26.00	Joint Venture
Mumbai Aviation Fuel Farm Facility Private Limited	25.00	Joint Venture
Bhagyanagar Gas Limited	48.73	Joint Venture
Petronet India Limited	16.00	Joint Venture
Ratnagiri Refinery & Petrochemicals Limited	25.00	Joint Venture
HPOIL Gas Private Limited	50.00	Joint Venture
IHB Limited	25.00	Joint Venture
Mangalore Refinery and Petrochemicals Limited	16.96	Associate
GSPL India Transco Limited	11.00	Associate
GSPL India Gasnet Limited	11.00	Associate

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	30743.0	CRISIL AAA/Stable	24-01-24	CRISIL AAA/Stable	27-12-23	CRISIL AAA/Stable	06-12-22	CRISIL AAA/Stable	30-09-21	CRISIL AAA/Stable	CRISIL AAA/Stable
						21-08-23	CRISIL AAA/Stable	30-08-22	CRISIL AAA/Stable		--	--
						07-06-23	CRISIL AAA/Stable	05-07-22	CRISIL AAA/Stable		--	--
						02-06-23	CRISIL AAA/Stable	22-06-22	CRISIL AAA/Stable		--	--
						16-03-23	CRISIL AAA/Stable	30-04-22	CRISIL AAA/Stable		--	--
Non-Fund Based Facilities	ST	19257.0	CRISIL A1+	24-01-24	CRISIL A1+	27-12-23	CRISIL A1+	06-12-22	CRISIL A1+	30-09-21	CRISIL A1+	CRISIL A1+
						21-08-23	CRISIL A1+	30-08-22	CRISIL A1+		--	--

			--		--	07-06-23	CRISIL A1+	05-07-22	CRISIL A1+		--	--
			--		--	02-06-23	CRISIL A1+	22-06-22	CRISIL A1+		--	--
			--		--	16-03-23	CRISIL A1+	30-04-22	CRISIL A1+		--	--
Commercial Paper	ST	25000.0	CRISIL A1+	24-01-24	CRISIL A1+	27-12-23	CRISIL A1+	06-12-22	CRISIL A1+	30-09-21	CRISIL A1+	CRISIL A1+
			--		--	21-08-23	CRISIL A1+	30-08-22	CRISIL A1+		--	--
			--		--	07-06-23	CRISIL A1+	05-07-22	CRISIL A1+		--	--
			--		--	02-06-23	CRISIL A1+	22-06-22	CRISIL A1+		--	--
			--		--	16-03-23	CRISIL A1+	30-04-22	CRISIL A1+		--	--
Fixed Deposits	LT	0.0	CRISIL AAA/Stable	24-01-24	CRISIL AAA/Stable	27-12-23	CRISIL AAA/Stable	06-12-22	CRISIL AAA/Stable	30-09-21	F AAA/Stable	F AAA/Stable
			--		--	21-08-23	CRISIL AAA/Stable	30-08-22	CRISIL AAA/Stable		--	--
			--		--	07-06-23	CRISIL AAA/Stable	05-07-22	CRISIL AAA/Stable		--	--
			--		--	02-06-23	CRISIL AAA/Stable	22-06-22	CRISIL AAA/Stable		--	--
			--		--	16-03-23	CRISIL AAA/Stable	30-04-22	F AAA/Stable		--	--
Non Convertible Debentures	LT	21400.0	CRISIL AAA/Stable	24-01-24	CRISIL AAA/Stable	27-12-23	CRISIL AAA/Stable	06-12-22	CRISIL AAA/Stable	30-09-21	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--	21-08-23	CRISIL AAA/Stable	30-08-22	CRISIL AAA/Stable		--	--
			--		--	07-06-23	CRISIL AAA/Stable	05-07-22	CRISIL AAA/Stable		--	--
			--		--	02-06-23	CRISIL AAA/Stable	22-06-22	CRISIL AAA/Stable		--	--
			--		--	16-03-23	CRISIL AAA/Stable	30-04-22	CRISIL AAA/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	400	Punjab National Bank	CRISIL AAA/Stable
Cash Credit	1000	Bank of India	CRISIL AAA/Stable
Cash Credit	200	Bank of Baroda	CRISIL AAA/Stable
Cash Credit	700	Union Bank of India	CRISIL AAA/Stable
Cash Credit	500	ICICI Bank Limited	CRISIL AAA/Stable
Cash Credit	100	Standard Chartered Bank Limited	CRISIL AAA/Stable
Cash Credit	80	Citibank N. A.	CRISIL AAA/Stable
Cash Credit	1000	HDFC Bank Limited	CRISIL AAA/Stable
Cash Credit	7500	State Bank of India	CRISIL AAA/Stable
External Commercial Borrowings*	415	UCO Bank	CRISIL AAA/Stable
External Commercial Borrowings*	2075	State Bank of India	CRISIL AAA/Stable
Fund-Based Facilities	500	Union Bank of India	CRISIL AAA/Stable
Fund-Based Facilities	500	ICICI Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities	300	HDFC Bank Limited	CRISIL AAA/Stable
Non-Fund Based Limit	1507	HDFC Bank Limited	CRISIL A1+
Non-Fund Based Limit	11850	State Bank of India	CRISIL A1+
Non-Fund Based Limit	5800	ICICI Bank Limited	CRISIL A1+
Non-Fund Based Limit	100	Union Bank of India	CRISIL A1+
Proposed Fund-Based Bank Limits	12963	Not Applicable	CRISIL AAA/Stable
Proposed Long Term Bank Loan Facility	1935	Not Applicable	CRISIL AAA/Stable

Rupee Term Loan	575	HDFC Bank Limited	CRISIL AAA/Stable
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*Considering exchange rate of USD 1 = Rs 83

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Petrochemical Industry](#)

[CRISILs criteria for rating fixed deposit programmes](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support](#)

[CRISILs Criteria for Consolidation](#)

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