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Rating Action: Moody's reviews BPCL's Baa2 rating for downgrade on government sale

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Singapore, November 26, 2019 -- Moody's Investors Service has placed the following ratings on review for downgrade:

- the ba1 baseline credit assessment of Bharat Petroleum Corporation Limited (BPCL)

- the Baa2 issuer and senior unsecured ratings of BPCL

- the (P)Baa2 senior unsecured rating on MTN program of BPCL and BPRL International Singapore Pte. Ltd. (BPRL)

- the Baa2 backed senior unsecured rating of BPRL.

BPRL is a wholly owned subsidiary of BPCL and its bonds are guaranteed by BPCL.

RATINGS RATIONALE

The review for downgrade follows the government of India's (Baa2 negative) decision to sell its entire 53.29% stake in BPCL and to transfer management control of the company to a strategic buyer.

BPCL's Baa2 rating incorporates its ba1 baseline credit assessment (BCA), a measure of its standalone credit strength, and a two-notch uplift from expected extraordinary support from the government.

The review for downgrade takes into account the uncertainty with respect to both the support incorporated into BPCL's rating as well as its BCA.

"Post the government's stake sale, we will not include the two-notch uplift from government support in BPCL's rating. This could result in downgrade of BPCL's ratings to Ba1, assuming there are no changes to its fundamental credit profile, including our assessment of liquidity and refinancing risk which could impact the BCA," says Vikas Halan, a Moody's Senior Vice President.

"Our assessment of BPCL's credit profile and any resultant rating action, post the stake sale, will depend on the ability and willingness of the buyer to provide extraordinary support to BPCL in the event of distress, and also the company's ability to maintain its standalone credit strength," says Halan, who is the lead analyst for BPCL at Moody's.

Moody's rating action also assumes that BPCL's status as a government owned entity in India will continue until at least the conclusion of the proposed sale.

The sale by the government will also trigger a change of control on some of BPCL's bonds, which will require the company to redeem its bonds within 45 days of the change of control being triggered. There is no ratings condition attached to the put option for bondholders. Further, BPCL's foreign currency bondholders could also decide to treat the government stake falling below 50% as an event of default, which would result in bonds being immediately repayable. Any bond redemption will significantly increase BPCL's refinancing risk. As of 22 November 2019, BPCL had $2.3 billion of foreign currency bonds outstanding. The company had cash and cash equivalents of INR9.7 billion as of 30 September 2019.

As part of its decision to sell its stake in BPCL, the government also announced that BPCL will also sell its 61.65% in Numaligarh Refinery Limited to other government owned oil & gas companies. The valuation of the stake and the use of proceeds from such sale is yet to be determined. The sale will also reduce BPCL's capital spending as it is one of the largest project that the company is working on.

BPCL has been operating under government control and its business strategy has been in line with government policy and objectives. A change in ownership could result in the company revising its business strategy or financial policies, which could have implications for its standalone profile.

The review will consider (1) the buyer's credit quality and its willingness to provide support to BPCL, (2) BPCL's business strategy, financial policies, access to liquidity and capital structure following the change in its ownership and (3) the government's plan for reimbursing BPCL for the sale of liquified petroleum gas at subsidized prices after the stake sale.

In terms of environmental, social and governance (ESG) factors, the rating considers BPCL's exposure to carbon transition risk. The uncertainty around BPCL's future ownership structure and its business and financial strategy has resulted in its rating being under review for downgrade.

The rating will be downgraded if (1) Moody's concludes that the ability and willingness of the buyer to provide extraordinary support to BPCL is not sufficient to result in a two-notch uplift to BPCL's rating; or (2) BPCL's standalone profile weakens following the change in ownership.

On the other hand, the rating could be confirmed at the current level if Moody's concludes that (1) the ability and willingness of the buyer to provide extraordinary support to BPCL is sufficient to result in at least two notches of uplift to BPCL's rating; and (2) BPCL's standalone profile remains at least equivalent to the Ba1 level.

The methodologies used in these ratings were Refining and Marketing Industry published in November 2016, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Bharat Petroleum Corporation Limited is headquartered in Mumbai. The company is a leading downstream company, specializing in oil refining, marketing, distribution, and the retailing of petroleum products.

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