June 08, 2021

Indorama India Private Limited (erstwhile IRC Agrochemicals Private Limited): Ratings upgraded to [ICRA]AA-(CE) (Stable)/[ICRA]A1+(CE)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term - Fund based and Non-Fund based	2150.0	2150.0	[ICRA]AA-(CE) (Stable)/[ICRA]A1+(CE), upgraded from [ICRA]A+(CE) (Stable)/[ICRA]A1 (CE)
Total	**2150.0**	**2150.0**	
Rating Without Explicit Credit Enhancement			[ICRA]A/[ICRA]A1 upgraded from [ICRA]A-/[ICRA]A2+

**Instrument details are provided in Annexure-1 Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement*

Rationale

The ratings are based on the strength of the corporate guarantees provided by Indorama Corporation Pte. Ltd. (IRC), the ultimate parent of Indorama India Private Limited (IIPL; erstwhile IRC Agrochemicals Private Limited), for IIPL's rated bank lines. The rating action factors in the strengthening of IRC's (on a consolidated basis including Group companies; Indorama Group or Group) credit profile, as demonstrated by its healthy performance in CY2020 and recent completion of the ongoing sizeable capacity expansion programme of the urea manufacturing capacities in Nigeria, despite challenging global macro-economic conditions due to Covid-19. The Group was largely able to maintain its revenue at ~$2.8 billion in CY2020 with operating margins improving to ~28% (against ~26% in CY2019), driven by strong recovery in operations and strong performance of the synthetic gloves division, after some initial disruptions in some business segments in the Q2-2020 due to Covid-19. Maintaining the momentum, the Indorama Group has already achieved revenue of ~$940* million in Q1CY2021 ($650 million in Q1 CY2020) driven by strong performance across all key business segments, with the synthetic gloves business reporting the highest growth. Fertilisers has remained the key business segment for the Group, contributing 50-60% of the consolidated operating profit before depreciation, interest and tax (OPBDITA) in the past. However, in Q1 CY2021, other business segments, especially gloves and petrochemicals have demonstrated significantly improved performance resulting in material improvement in the profitability from these segments and their contribution to the consolidated OPBDITA. This has translated into healthy accruals and strong liquidity position for IRC, as reflected in sizeable cash and liquid investments of around $1.3 billion as of March 2021. Moreover, the Group's revenue and profitability are expected to improve further, aided by steady performance across the key business segments and contribution from the recently enhanced urea manufacturing capacity in Nigeria.

The Stable outlook on the long-term rating reflects ICRA's outlook on the credit profile of the guarantor, IRC.

IIPL's ratings also factor in the benefits derived by its strong parentage (the Indorama Group) in the form of the continued operational synergies and financial flexibility. Moreover, there has been considerable improvement in IIPL's financial profile in FY2021, as marked by healthy revenue growth (operating income of Rs. 4484* crore against Rs. 3538 crore in FY2020), improvement in margins (operating margins of ~11.6%* in FY2021 against 8.2% in FY2020), reduced reliance on debt (due to sizeable receipt of subsidy and trade collection during the fiscal) and strengthening of debt protection metrics.

**as per provisional financials*

This has been aided by strong demand for fertilisers and softening of key raw material prices during the fiscal as well as improved performance of the spandex yarn business.[1] Further the company continues to benefit from its established brand, wide retail distribution network and its raw material sourcing arrangements (including that for phosphoric acid with a Group company). ICRA has also taken note of IIPL's proposed acquisition of Indo Gulf Fertilisers (IGF; fertiliser business from Grasim Industries Limited- Aditya Birla Group), which is currently underway, subject to statutory approvals. The acquisition will provide the Group entry in the urea business in India and generate several synergies such as increased competitive strength and wider distribution network. While funding of the acquisition is expected to result in an increase in IIPL's debt levels and some moderation in coverage metrics in the near term, no material impact is anticipated on IIPL's credit profile. ICRA expects IIPL to benefit from healthy demand outlook for the fertiliser industry coupled with the accrual contribution from IGF and the existing business of IIPL, which will aid the strengthening of the coverage metrics in the medium term.

The ratings, however, are constrained by the susceptibility of performance of industry participants including IIPL to regulatory policies governing the fertiliser sector and agro-climatic risks. Moreover, the profitability remains vulnerable to volatility in raw material prices and cyclicality inherent in the fertiliser business. The prices of key raw materials for the fertiliser business have increased sharply in recent months, which is likely to result in some moderation in profit margins for the industry participants from the previous fiscal levels. However, the recent hike in subsidy rates by the Government of India (GoI) is expected to compensate against the same to some extent. Also, the company has a limited track record of operations given that the fertiliser plant was acquired from Tata Chemicals in early FY2019 itself. Nevertheless, IIPL has been able to scale up steadily and improve the profit margins, which were suppressed before the acquisition due to operational/raw material sourcing challenges.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the guarantees issued by IRC in favour of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. However, the guarantee has a payment mechanism which shall only trigger upon an occurrence of event of default. Given these attributes, the guarantee provided by IRC is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]AA-(CE)/ [ICRA]A1+(CE) against the ratings of [ICRA]A/[ICRA]A1 without explicit credit enhancement. In case the guarantor's rating or the unsupported rating of IIPL undergoes a change in future, the same would reflect in the ratings of the aforesaid instruments. The ratings of these facilities may also undergo a change if, in ICRA's assessment, there is a change in the strength of the business links between the guarantor and the rated entity, or there is a change in the reputation sensitivity or a change in strategic importance of the rated entity of the guarantor.

Salient covenants related to the credit enhancement

The Guarantor must ensure to adhere the following financial covenants on a standalone basis:

- *DSCR not less than 1.15 times;*
- *ISCR not less than 2.5 times; and*
- *Total Net Worth (Standalone) not less than $1 billion.*

The Guarantor must ensure to adhere the following financial covenants on a consolidated basis:

- *Net Debt to Total Net Worth (Consolidated) ratio not more than 2.25 times; and*
- *Consolidated DSCR - Guarantor not less than 1.15 times*

The Borrower must ensure to adhere the following financial covenants

- *Net Debt to Total Net Worth ratio of 2.5 times*

[1] *Merged into IIPL w.e.f. October 1, 2019)*

Key rating drivers and their description

Credit strengths

Strong parentage aids operational and financial flexibility; corporate guarantee extended for IIPL's bank lines – A global business conglomerate, IRC is one of the largest petrochemical players globally. It has been operating in the petrochemical sector for more than four decades and manufactures products across the petrochemical value chain, including polyethylene, polypropylene, spun yarns, polyester, medical gloves and fabrics. IRC also has vested interest in fertilisers in Nigeria, Senegal, Uzbekistan and India. Despite the adverse impact of the pandemic globally, IRC (on a consolidated basis including Group companies) displayed good performance and was able to largely sustain its scale with revenue of ~$2.8 billion in CY2020, driven by strong recovery in operations, after some initial disruptions in some business segments in Q2-2020 due to Covid-19. Maintaining the momentum, IRC has already achieved revenue of ~$940 million in Q1CY2021, against $650 million in the corresponding quarter in the previous year. The top line growth has been driven by strong performance across all key business segments, with the synthetic gloves business reporting the highest growth. The operating profit generation during the said quarter has also been significantly higher. IIPL benefits from its strong parentage in the form of the continued operational synergies and financial flexibility. Also, the credit enhancement in the form of corporate guarantee by IRC for IIPL's bank facilities reinforces the commitment of the former.

Established brand and retail distribution network - IIPL acquired a Haldia-based plant along with the brand name Paras and the large marketing setup of Tata Chemicals. The Paras brand is widely recognised by the farmers and commands premium over other competing brands. IIPL holds sizeable market share in its key geographies of Bihar, West Bengal, Assam and Jharkhand. The proposed acquisition of IGF is expected to further strengthen IIPL's competitive position and distribution network.

Raw material sourcing arrangement with Group company - The key raw material used in manufacturing phosphatic fertilisers and single super phosphate (SSP) are phosphoric acid, rock phosphate, ammonia, sulphuric acid and muriate of potash (MOP). The company has raw material sourcing arrangement with various international suppliers for its raw material requirements. Apart from this, it sources large volumes of its phosphoric acid requirement from Industries Chimiques du Senegal (a Group company), which ensures ready availability of raw material.

Improvement in financial profile in FY2021 - There has been considerable improvement in IIPL's financial profile in FY2021, as marked by healthy revenue growth, improvement in margins, reduced reliance on debt (due to sizeable receipt of subsidy and trade collection during the fiscal) and strengthening of debt protection metrics. This has been aided by strong demand for fertilisers and softening of key raw material prices during the fiscal; and improved performance of the spandex yarn business. Moreover, with sizeable subsidy budget allocations for the current year, the reliance of industry participants including IIPL on working capital debt is expected to remain under check. Funding of the acquisition is expected to result in an increase in IIPL's debt levels and some moderation in coverage metrics in the near term. However, there will not likely be any material impact on IIPL's credit profile. Further healthy demand for fertilisers coupled with the accrual contribution from IGF and the existing business of IIPL, will aid the strengthening of the coverage metrics in the medium term.

Healthy outlook for fertilisers industry - The nutrient imbalance of Indian soil is a result of overuse of urea and low use of NPK, which makes the soil acidic. With schemes like soil health cards being implemented by the GoI to determine the soil health and advice to farmers on the right fertilisers to use the demand outlook for phosphatic (P&K) fertilisers remains positive. The demand outlook for the industry remains healthy with domestic demand for P&K fertilisers at around 26 million metric tonne (MMT), whereas the domestic capacity for P&K fertilisers is around 20 MMT resulting in a significant portion being met through imports.

Credit challenges

Vulnerability of profitability to volatility in raw material prices and cyclicality inherent in fertiliser business - The profitability of the company is vulnerable to the cyclicality inherent in the sector and volatility in raw material prices. Prices of key raw materials for the fertiliser business have increased sharply in the recent months, which is likely to result in some moderation in profit margins for the industry participants from the previous fiscal levels. However, the recent hike in subsidy rates by the GoI is expected to compensate against the same to some extent.

Performance remains susceptible to regulatory policies and agro-climatic conditions - The performance/profitability of the industry participants including IIPL remains vulnerable to the regulatory policies governing the sector. The under-budgeting of subsidies in the past had a drain on the profitability of the sector although the same have been cleared in FY2021. However, issues like inverted duty structure for the phosphatic segments continue to moderate the industry's performance. The performance of the sector also depends on the performance of monsoon as it directly impacts the performance of the agriculture sector, the end-user of fertiliser.

Limited track record of operations - IIPL acquired a Haldia-based plant from Tata Chemicals in FY2019 and thus it has limited track record of operations. Notwithstanding the same, the company has been able to scale up steadily and improve the profit margins, which were suppressed before the acquisition due to operational/raw material sourcing challenges.

Liquidity position: Strong

IRC's liquidity is expected to remain strong, supported by, on a consolidated basis, healthy internal accrual generation, sizeable cash balances/liquid investments of about $1.3 billion as of March 2021, undrawn working capital lines ($1000 – 1200 million on an average) and sanctioned revolving credit facilities of about $490 million (with undrawn line is about $290 million) provides comfort. Cash accrual generation is expected to be more than sufficient to meet the debt repayment liability of the Group on a consolidated basis. The Group is also undertaking capex across key business segments, which will be funded through a mix of debt and internal accruals.

The liquidity position of IIPL is also expected to remain strong, supported by healthy internal accrual generation, sizeable cash balances/liquid investments of about Rs. 420 crore as of March 2021 and sizeable cushion (average of ~Rs. 400 crore in FY2021 against drawing power) in the form of undrawn bank lines. This is also demonstrated by prepayment (in April 2021) of the entire outstanding foreign currency term loan availed for the spandex unit. Moreover, the company enjoys strong financial flexibility by virtue of being a part of the Indorama Group. Despite the proposed capex (for spandex business) and funding of the IGF acquisition in the near term, the cash accrual generation will be more than sufficient to meet the debt servicing obligations.

Rating sensitivities

Positive factors - Improvement in the credit profile of guarantor/ultimate parent – IRC, could trigger a rating upgrade

Negative factors - Significant deterioration in the revenue, cash accrual generation and debt protection metrics of IIPL would be a negative factor. Deterioration in the credit profile of IRC or any weakening of the linkage between IIPL and IRC could also trigger a rating downgrade

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support Rating Methodology for Fertiliser Entities
Parent/Group Support	Guarantor/Ultimate Parent Company: Indorama Corporation Pte. Ltd. The assigned ratings are based on unconditional, irrevocable corporate guarantees extended by IIPL's ultimate parent company – Indorama Corporation Pte. Ltd. (IRC)
Consolidation/Standalone	The ratings are based on standalone financial statements of IIPL. For the analysis at guarantor/ultimate parent level, ICRA has considered the consolidated financials IRC and its various Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among these.

About the company (IIPL)

IIPL was incorporated in September 2017 to acquire the Tata Chemicals' phosphate fertiliser plant located at Haldia (West Bengal). The Haldia plant has a capacity to produce 841,500 MTPA of NPK (660,000 MTPA of DAP equivalent) and 198,000 MTPA of single super phosphate (SSP). The plant also has facility to produce 750 TPD of sulphuric acid. The company acquired the plant and TCL's Paras brand on a slump sale basis with the effective date of acquisition being June 1, 2018. In addition to the fertiliser business, the spandex yarn manufacturing business of the Indorama Group has been demerged from another Group entity into IIPL, with effect from October 1, 2019. The manufacturing facility of the spandex business is located at Baddi, Himachal Pradesh.

About the Guarantor (IRC)

IRC is the holding company for the global business conglomerate - "Indorama Group", which was founded in 1975 by Mr. M.L. Lohia and his son Mr. S.P. Lohia. Mr. S.P. Lohia, (Group Chairman) and his son Mr. Amit Lohia, (IRC's Vice Chairman) are ably supported by a large group of experienced professionals managing IRC's global operations. The Indorama Group is one of the leading petrochemical producers engaged in manufacturing of petrochemicals and associated downstream products like polyolefins, polyesters yarns, synthetic disposable gloves, fabrics, PET resin etc. The group also produces fertilisers through its subsidiaries i.e. urea in Nigeria and phosphatic fertilisers in Senegal, Uzbekistan and India.

Key financial indicators - IIPL (audited)

	FY2020	FY2021*
Operating Income (Rs. crore)	3,538.0	4,484.0
PAT (Rs. crore)	56.8	288.8
OPBDIT/OI (%)	8.2%	11.6%
PAT/OI (%)	1.6%	6.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	1.5
Total Debt/OPBDIT (times)	5.3	1.6
Interest Coverage (times)	2.3	6.4

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *as per provisional financials*

Source: Company, ICRA Research; All ratios as per ICRA calculations

Key financial indicators – IRC (audited)

Consolidated – in $ million	CY2019	CY2020
Operating Income	2,929.3	2,756.2
PAT*	563.1	536.1
OPBDITA/OI (%)	25.7%	28.2%
PAT*/OI (%)	12.4%	10.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7
Total Debt/OPBDITA (times)	3.3	3.5
Net Debt/OPBDITA (times)	2.3	2.2
Interest Coverage (times)	7.0	8.9

*Source: Company, ICRA Research; All ratios as per ICRA calculations *excluding the Share of Profit in associates*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years									
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019					
					June 8, 2021	Nov 24, 2020	July 31, 2020	March 3, 2020	June 20, 2019	January 15, 2019	December 20, 2018	December 5, 2018	September 18, 2018	May 29, 2018
1	Fund based and Non-Fund based Working capital Limits	Long-Term/Short-term	2150.0	-	[ICRA]AA-(CE) (Stable) /[ICRA]A1+(CE)	[ICRA]A+(CE) (Stable)/ [ICRA]A1 (CE)	[ICRA]A+(CE) (Stable)/ [ICRA]A1 (CE)	[ICRA]A+(CE) (Stable)/ [ICRA]A1 (CE)	[ICRA]A+(SO) (Stable)/ [ICRA]A1 (SO)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 975.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 975.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 920.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 920.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 920.00 crore)
2	Working capital - Non fund based	Short-Term	-	-	-	-	-	-	-	[ICRA]A1(SO) (Rs 230.00 crore)	[ICRA]A1(SO) (Rs 230.00 crore)			
3	Fund based and Non-Fund based Working capital Limits	Long-Term/Short-term	-	-	-	-	-	-	-	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 150.00 crore)	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 150.00 crore)	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 205.00 crore)	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 205.00 crore)	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 205.00 crore)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term/Short Term-Fund based and Non-Fund based	Simple/Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Long Term/Short Term-Fund based and Non-Fund based	NA	NA	NA	2150.0	[ICRA]AA-(CE) (Stable)/[ICRA]A1+(CE)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership#	Consolidation Approach
Indorama Investments Limited	100%	Full Consolidation
Indorama Energy Pte. Ltd.	100%	Full Consolidation
Indorama Enterprises Pte. Ltd.	100%	Full Consolidation
Indorama Group Investments Limited	100%	Full Consolidation
Indorama Global Trading AG	100%	Full Consolidation
Indorama Commerce DMCC	100%	Full Consolidation
Indorama Petrochemicals Holdings Pte. Ltd.	100%	Full Consolidation
Indorama Healthcare Pte. Ltd.	100%	Full Consolidation
Indorama Holdings B.V.	100%	Full Consolidation

List of key operating entities held directly/indirectly by Indorama Corporation Pte. Ltd.

Company Name	Ownership#	Consolidation Approach
Indorama Eleme Petrochemicals Limited (Nigeria)	65%	Full Consolidation
YTY group* (Malaysia)	100%	Full Consolidation
Indorama India Private Limited (India)	100%	Full Consolidation
Indorama Eleme Fertilisers & Chemicals Limited (Nigeria)	76%	Full Consolidation
Industries Chimiques du Senegal (Senegal)	78%	Full Consolidation
PT. Indo-Rama Synthetics Tbk (Indonesia)^	63.92%	Full Consolidation
Indorama Industries Limited (India)	100%	Full Consolidation
FE Indorama Agro LLC (Uzbekistan)	100%	Full Consolidation
JSC Indorama Kokand Fertilisers and Chemicals (Uzbekistan)	95.54%	Full Consolidation

*# as on December 31, 2020. * YTY Group consists of Green Prospect Sdn Malaysia, YTY Industry Sdn Malaysia, Grand Ten Holdings Sdn Bhd Malaysia and PT Medisafe Technologies (Indonesia). These companies are wholly owned subsidiaries of Indorama Corporation Pte. Ltd. ^Including subsidiaries in Uzbekistan, Turkey, Srilanka & Singapore*

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About ICRA Limited:

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