September 30, 2022

Haldia Petrochemicals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term limits- Term loans	2,674.00	2,842.00	[ICRA]AA- (Stable); reaffirmed
Long-term limits-Fund-based	731.00	500.00	[ICRA]AA- (Stable); reaffirmed
Short-term limits- Non-fund based limits*	1505.00	2,200.00	[ICRA]A1+; reaffirmed
Long-term/Short-term unallocated	5,348.00	4,983.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Short term – Commercial paper programme	100.00	100.00	[ICRA]A1+; reaffirmed
Long term-Non-fund based limits	3,800.00	3,533.00	[ICRA]AA- (Stable); reaffirmed
Issuer rating	-	-	[ICRA]AA- (Stable); reaffirmed
Total	**14,158.00**	**14,158.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings continue to factor in HPL's demonstrated track record in the petrochemical business, the strength of its promoter, and its leading market position in the eastern Indian market for polymers. Its locational advantage in servicing eastern India and Asian export demand, along with a favourable outlook for polymer demand in India over the long term from several end-users, especially given the low per capita consumption vis-à-vis global averages are the other rating comforts. The ratings consider the cyclicality inherent in the petrochemical business and the vulnerability of its profitability to the changes in import duty levels and the rupee–dollar movement.

The reaffirmation of the ratings also factors in the comfortable liquidity position of the company as reflected in the cash and investments of more than Rs. 3,300 crore as on March 31, 2022 (including non-current investments in quoted non-convertible debentures as well as encumbrance towards debt service reserve account and stand-by letter of credit) and the low capex requirements in the near to medium term, amid the low working capital intensity of the business. ICRA also takes into account the debt refinancing undertaken by the company, which has lowered the interest cost for the rupee term loans.

HPL reported significant revenue growth in FY2022 on account of elevated realisations, while volumes remained low owing to Covid and the plant shutdown in August 2021. The realisations were supported by elevated naphtha prices, which also increased finished goods prices. However, the spreads weakened as the rise in finished goods prices was not commensurate to the increase in naphtha prices, weakening the tolling margins in FY2022 (average of ~$180-185/MT in FY2022 against $230/MT in FY2021). The global scenario has remained muted with recessionary fears in Europe and zero Covid policy in China. This is expected to result in a moderation in performance in FY023, leading to weak OPBDITA generation. ICRA expects HPL's leverage (net debt/OPBDITA), including debt at HPL Technologies B.V., to increase slightly to ~4.0 times by March 31, 2023; however, the leverage is expected to subsequently decline to around less than 3.0 times by March 31, 2024.

In FY2021, HPL, in a joint venture with private equity firm Rhone Capital, acquired Lummus Technology LLC (Lummus), the technology division of McDermott International Inc (MDR). HPL acquired a 57% equity stake (as of now 57.9%) for ~$690 million which was partly funded through a foreign currency term loan (FCTL) of ~$512 million raised in HPL's wholly-owned subsidiary – HPL Technologies B.V. (HTS). Lummus generated an EBITDA of around $210 million in CY2021. Moreover, the cash reserves in Lummus were around $150 million as on March 31, 2022 on the back of steady recoveries and receipt of mobilisation advances against new projects. Notwithstanding the impressive credentials of MDR's technology division (operated through Lummus), the acquisition has significantly increased the long-term debt to be serviced by HPL even though the company hopes to realise substantial synergies over the medium to long term. ICRA has not consolidated the financials of Lummus Technology while arriving at the ratings of HPL and hence has not considered any incremental support to be provided by the latter to the former and the debt raised on the former's books has no recourse to the latter. Nevertheless, the ability of Lummus Technology to service the $1.5-billion debt on its books remains a key monitorable and any support extended by HPL to the target company for shortfall in debt servicing will be a key rating sensitivity.

HPL is in the process of acquiring a land parcel in Cuddalore, Tamil Nadu, under the liquidation of Nagarjuna Oil Corporation Limited (NOCL) for a consideration of ~Rs. 600-700 crore (including other incidental expenses). ICRA notes that HPL has been investing in subsidiaries and extending short-term loans and advances to Group companies, with the total exposure standing at ~Rs. 3,780 crore as of March 2022. Any further material increase in loans and advances to Group companies, including Lummus Technology, remains a key rating sensitivity.

HPL had signed non-binding MoUs with the governments of Andhra Pradesh and Odisha for setting up refinery-cum-petrochemical complexes. It is also exploring the possibility to set up a similar project on NOCL's land. While there have not been any incremental developments on the same since the last rating exercise, the investments in any of the aforementioned projects would be sizeable, as and when undertaken. However, as these plans are at a very preliminary stage, ICRA has not factored in any large long-term acquisitions/investments by HPL. ICRA will review the ratings if the company was to embark on large debt-funded projects that impacts its financial profile.

Key rating drivers and their description

Credit strengths

Demonstrated track record in petrochemical business with established customers – The domestic polyolefins market has major participants, such as Reliance Industries Ltd., HPL, Indian Oil Corporation Limited, GAIL India, OPAL, HPCL Mittal Energy Limited, Mangalore Refinery and Petrochemicals Limited, wherein HPL has maintained its niche position through its high-quality focus.

Dominant market position in eastern India and logistical advantage in exporting to East Asian region – HPL has a strong market position in eastern and northern India and sells most of its products in the high netback regions of these markets. Additionally, owing to the location of its Haldia plant, the company has logistical advantage in exporting to the East Asian market.

Favourable outlook for polyolefins demand in India – The domestic per capita consumption as well as the absolute consumption of commodity polymers are expected to show secular growth due to various economic and demographic factors such as increase in urban population and rise in per capita income. Notwithstanding the ban on single-use plastics and the adverse impact of any future waves of the pandemic, ICRA expects the domestic consumption of commodity polymers to record a CAGR of 7-8% over the long term.

Value-added projects to improve returns from the business over long term – The company has regularly invested towards setting up capacities for manufacturing value-added products to enhance its profitability. In the past, HPL had set up a butene-1 (under its subsidiary) pygas de-sulphurisation plant. In addition to this, it has replaced its two naphtha and CBFS boilers with coal-based boilers.

Comfortable liquidity position - The company has comfortable cash and liquid investments of more than Rs. 2,700 crore (including encumbrances owing to DSRA and SBLC requirements). This apart, the company has investments in bonds (largely in AAA-rated companies and Government of India bonds) valued at Rs. 548 crore as on March 31, 2022. This apart, internal accrual generation and undrawn working capital lines are likely to keep the liquidity position comfortable.

Credit challenges

Debt levels to remain elevated in the medium term; coverage indicators to moderate in the near term - The debt levels (including SBLC debt) have remained elevated at around Rs. 6,800 crore as on March 31, 2022, and are expected to remain elevated in the medium term. The high debt, coupled with the expected pressure on EBITDA generation, is likely to moderate the debt coverage indicators for FY2023. The scenario is likely to improve, going forward.

Profitability vulnerable to inherent cyclicality in business, import duty levels and exchange fluctuations – Despite the current healthy cash accruals of the company, the profitability remains vulnerable to the cyclicality inherent in the petrochemical business, import duty levels and foreign exchange fluctuations. Moreover, owing to supply overhang, ethylene over-capacity and downcycle in margins are likely over the next few years. Accordingly, the tolling margins for all types of crackers are expected to witness some moderation due to a supply overhang and intense competition.

Operational risks from draft levels at Haldia port, through which HPL imports naphtha; sustainability of cost structure relies on ability to run the plant without significant downturns – The company is dependent on the draft at the Haldia Port, owing to which HPL unloads cargo from the mother vessel to a daughter vessel at the Vizag port, while both the mother and daughter vessels with relatively low weight are unloaded at the Haldia port. However, with the draft level stabilising of late, the risks of a receding draft has been offset to some extent. While the high capacity utilisation has resulted in cost efficiencies in manufacturing expenses and better fixed cost absorption in the past, any material decline in the capacity utilisation would adversely impact the company's cost structure.

Liquidity position: Adequate

HPL's liquidity remains comfortable, supported by healthy internal accrual generation, cash balances/liquid investments (~Rs. 3000 crores as of August 2022 end) and cushion in the form of undrawn bank lines. The internal accrual generation is expected to be more than enough to meet its own debt servicing as well as that of HPL Technologies BV (HTS). Moreover, the capital structure remains comfortable and no major increase in debt levels is anticipated for HPL.

Rating sensitivities

Positive factors –The ratings could be upgraded if the tolling margins and profitability improve, leading to deleveraging and better debt metrics with net debt/OPBDITA (including debt availed by HPL Technologies B.V.) of less than 1.25 times, on a sustained basis.

Negative factors – Sustained pressure on revenue and profitability and any material investments/funding support to Group companies (including Lummus Technology), or any large debt-funded capex/acquisitions could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemicals Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HPL. As on March 31, 2022 the company had eight subsidiaries as listed in Annexure II

About the company

Haldia Petrochemicals Limited (HPL) was set up as a joint venture (JV) between the Dr Purnendu Chatterjee-led Chatterjee Petrochem (Mauritius) and the Government of West Bengal (GoWB). With the sale of the first tranche of shares by GoWB in December 2015, the majority shareholding as well as the management control of the JV is now with the Chatterjee Group (TCG). HPL manufactures commodity polymers like high-density polyethylene (HDPE), linear low-density polyethylene (LLDPE), and polypropylene (PP), as well as chemicals/fuels like benzene and butadiene with intermediates sourced from a naphtha cracker (capacity: 700 KTA of ethylene) at Haldia, West Bengal. The company is the fourth-largest player in the domestic polyolefins market after Reliance Industries Limited, Indian Oil Corporation and ONGC Petro Additions Limited.

Key financial indicators (audited)

HPL Consolidated	FY2021	FY2022
Operating income	10271.6	12739.2
PAT	350.4	173.7
OPBDIT/OI	24.6%	11.3%
PAT/OI	3.4%	1.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	2.8	5.1
Interest coverage (times)	6.0	3.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

HPL Standalone	FY2021	FY2022
Operating income	9482.7	11826.5
PAT	380.9	282.8
OPBDIT/OI	25.5%	11.9%
PAT/OI	4.0%	2.4%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	1.4	2.5
Interest coverage (times)	9.1	6.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years							
		Type	Amount rated (Rs. crore)	Amount outstanding as on August 31, 2021 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021			Date & rating in FY2020		
					September 30, 2022	September 27,2021	February 19, 2021	September 3, 2020	June 24, 2020	December 13, 2019	September 16, 2019	April 12, 2019
1	Long Term Limits- Term Loans	Long Term	2842.00	2842.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA@	[ICRA]AA (Negative)	[ICRA]AA (Stable)
2	Long-term Limits-Fund-based	Long Term	500.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA@	[ICRA]AA (Negative)	[ICRA]AA (Stable)
3	Short-term Limits- Non-fund Based Limits	Short Term	2200.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+
4	Long-term/Short-term Unallocated	Long term/Short Term	4983.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA]A1+	[ICRA]AA@/ [ICRA]A1+@	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
5	Issuer Rating	Long term	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA@	[ICRA]AA (Negative)	[ICRA]AA (Stable)
6	Short Term-Commercial Paper	Short Term	100.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+
7	Long Term Non Fund Based	Long Term	3533.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	-	-	-
8.	Long Term – Proposed NCD Programme	Long Term	-	-	-	-	-	[ICRA]A+ (Stable) withdrawn	[ICRA]AA- (Negative)	[ICRA]AA@	[ICRA]AA (Negative)	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Limits- Term Loans	Simple
Long-term Limits-Fund-based	Simple
Short-term Limits- Non-fund Based Limits	Very Simple
Long-term/Short-term Unallocated Limits	Not applicable
Issuer Rating	Not applicable
Short Term – Commercial Paper programme	Very Simple
Long Term Limits-Non-fund based	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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term Limits-Term Loans	January 2015	2.5-7.5%	March 2030	2842.00	[ICRA]AA- (Stable)
NA	Long-term Limits-Fund-based	-	-	-	500.00	[ICRA]AA- (Stable)
NA	Short-term Limits-Non-fund Based Limits	-	-	-	2200.00	[ICRA]A1+
NA	Long-term/Short-term Unallocated	-	-	-	4983.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Issuer Rating	-	-	-	-	[ICRA]AA- (Stable)
NA	Short Term – Commercial Paper programme*	-	-	7-90 days	100.00	[ICRA]A1+
NA	Long Term Non-fund based	-	-	-	3533.00	[ICRA]AA- (Stable)

** - Unplaced*

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	HPL Ownership	Consolidation Approach
Haldia Riverside Estates Limited	100%	Full Consolidation
HPL Global Pte Limited	100%	Full Consolidation
Advance Performance Materials Private Limited	100%	Full Consolidation
HPL GO Private Limited	100%	Full Consolidation
HPL Technologies B.V. Netherlands	100%	Full Consolidation
SIO2P Private Limited	100%	Full Consolidation
HPL Industrial Parks Limited	100%	Full Consolidation
HPL Industrial Estates Limited	100%	Full Consolidation

Source: HPL annual report FY2022

Note: ICRA has taken a consolidated view of the parent (HPL), its subsidiaries and associates while assigning the ratings.

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