

May 23, 2023

## Performance Chemiserve Limited: Provisional [ICRA]AA-(CE) (Stable) assigned to proposed NCD programme and earlier ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loan	2,344.00	2,344.00	[ICRA]A+ (Stable); reaffirmed
Proposed non-convertible debenture programme	-	2000.00	Provisional [ICRA]AA-(CE) (Stable); assigned
<b>Total</b>	<b>2,344.00</b>	<b>4344.00</b>	

\*Instrument details are provided in Annexure-I

Rating in the absence of pending actions/documents	[ICRA]A+
Rating Without Explicit Credit Enhancement	[ICRA]A+

\*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the (provisional) rating symbol indicates that the rated instrument/facility is to be backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The table above also captures ICRA's opinion on (a) the rating if the pending actions/documents are not completed and (b) the rating without factoring in the proposed explicit credit enhancement.

### Rationale

#### For the provisional [ICRA]AA-(CE)(Stable) for Rs. 2000 crore proposed NCD programme

ICRA has assigned a provisional [ICRA]AA-(CE) rating to the Rs. 2,000-crore NCD programme of Performance Chemiserve Limited (PCL/the company/Issuer). The rating carries a Stable outlook. The provisional rating is subject to the fulfilment of all conditions under the structure and review of documentation pertaining to the transaction by ICRA.

#### Adequacy of credit enhancement

The rating is based on the credit substitution approach wherein the NCD programme of PCL has been assigned a rating of Provisional [ICRA]AA- (CE) (Stable), backed by a draft corporate guarantee provided by the Deepak Group and is legally enforceable, unconditional, irrevocable, covers the entire tenure and support the entire facility. The Deepak Group providing the draft guarantee comprises Deepak Fertilisers & Petrochemicals Limited (DFPCL, rated [ICRA]AA- (Stable)/[ICRA]A1+), Mahadhan Agritech Limited (MAL, erstwhile Smartchem Technologies Limited, rated [ICRA]AA- (Stable)/[ICRA]A1+) and Deepak Mining Solutions Private Limited. The draft corporate guarantee has a defined invocation and payment mechanism wherein the guarantor will be required to honour the debt servicing prior to the due date if the borrower fails to do so.

#### Salient covenants of the rated facility

- » NCDs redeemable at the end of 36 months; however, the issuer has the option to redeem it at the end of 18 months (quarterly thereafter) post issuance in full (partial redemption not allowed)
- » 3 months of interest to be maintained in the debt servicing reserve account (DSRA) latest by the 60<sup>th</sup> day of each quarter
- » Salient covenants include gross debt/EBDITA of DFPCL Group remaining below 4.0x, net debt/EBDITA remaining below 2.75x
- » Corporate guarantors to infuse Rs. 636 crore in the form of subservient unsecured interest bearing no-coupon paying loans
- » PCL's 51% of share capital to be pledged with the investor

» Change in management control to be considered as an event of default

#### For the [ICRA]A+(Stable) rating for Rs. 2,344.0-crore bank limits

The rating action favourably considers the strong parentage of PCL, being a step-down subsidiary of Deepak Fertilisers and Petrochemical Corporation Limited (DFPCL, [ICRA]AA-(Stable)/[ICRA]A1+), which has an established presence in the fertiliser, chemical and ammonia businesses.

The ammonia project being executed by PCL has achieved mechanical completion and the planned SCOD date is May 31, 2023. However, any delay in CoD beyond May 31, 2023, would result in a classification of PCL's account as a technical non-performing asset (NPA), as per the Reserve Bank of India's Income Recognition, Asset Classification and Provisioning (IRACP) norms. Further, the company plans to refinance its current project term loans through the proposed NCD as the project nears completion. The timely closure of the funding tie-ups and/or achievement of the CoD by the plant will remain a key monitorable, going forward.

The company has strong technological tie-ups for the ammonia project with the equipment procured from Toyo Engineering and an engineering agreement signed with Kellogg Brown and Root Inc. (KBR). The rating also considers the mechanical completion of the project and partial completion of the pre-commissioning activities. The company has incurred a capex of ~Rs. 3,673 crore till April 2023 and the balance capex will be incurred in the current fiscal. The debt-to-equity ratio of the project, post cost escalation, was envisaged to be ~61:39 with the incremental cost escalation being met by higher equity contribution. Of the total planned debt, as per the revised funding mix, only around Rs. 183 crore is yet to be tied up. However, due to the healthy cash accruals of the Group in the last few years, a part of the gap may also be funded through equity and internal accruals. The current sanctioned debt has an elongated repayment schedule of 14 years in addition to a moratorium of one year and seven months from CoD, supporting its debt coverage metrics, post-commissioning.

Further, ICRA notes that the Maharashtra state government's department of industries has conferred an ultra-mega status to the ammonia project and the company would receive industrial promotion subsidy by way of a refund of 100% gross SGST (up to 75% of the total project cost). The rating notes the proposed take-or-pay arrangement with the promoter entities, DFPCL and STL, for 100% of the plant capacity, resulting in minimal offtake risk.

The rating, is however, constrained by the project execution risk associated with the greenfield project, which has witnessed time and cost overruns in the past due to delays in land acquisition, the pandemic and changes in project specifications. Though the healthy project progress has mitigated the execution risk, the project is yet to be successfully commissioned and stabilised. The timely commissioning of the ammonia project as well as the ramp-up of operations within the timeline and budget would remain a key monitorable.

The rating also factors in the exposure of the project economics to the volatility in the spread between the landed cost of imported ammonia and gas costs, as at the current prices the profitability from the project is expected to be muted. ICRA also notes that the company has tied up a major portion of its gas requirements and is under discussions to tie up the balance gas. It will be crucial to have sufficient long-term gas contracts in place to ensure availability and mitigate the risks of a sharp increase in gas prices.

ICRA also notes the appeal filed by MAL in response to the receipt of assessment and demand orders for the block period (assessment year 2013-2014 to assessment year 2019-2020) pursuant to the search operation conducted by the income tax department in November 2018, resulting in a demand of Rs. 569 crore (including interest). ICRA will continue to monitor the development on this front.

The Stable outlook on PCL's rating reflects ICRA's expectation that PCL's credit profile will remain stable given the execution pace of the project, strong parentage and the availability of project debt moratorium till December 2024 under current financing facility.

## Key rating drivers and their description

### Credit strengths

**Financial support from parent and strong technical collaboration** - PCL is a step-down subsidiary of DFPCL with expertise across the fertiliser, chemical and ammonia sectors. It derives healthy financial flexibility from the established position of the Group. In addition, the project would benefit from the strong technological tie-ups with the equipment purchased from Toyo Engineering and an engineering agreement signed with KBR. Further, ICRA notes the corporate guarantee extended by DFPCL and MAL to PCL for existing rupee term loans related to the ammonia project which is valid till the end of six years and seven months from COD (revised from three years earlier) and plans to provide corporate guarantee backing the proposed NCD program for entire tenor indicates enhanced promoter-level support for PCL.

**Debt funding in place for project with elongated repayment schedule** -The company has tied up the debt facility which has an elongated repayment schedule of 14 years in addition to a moratorium of one year and seven months from CoD. The schedule gives ample time to ramp up the project before the repayment starts. The debt facility, however, has a put option available to the lender and the borrower after a period of 10 years, which if exercised by the lender, would increase the refinancing risks. However, due to the healthy financial flexibility of the Group, such a risk will be mitigated.

**Low offtake risks** – The company has entered into take-or-pay agreements with the promoter entities, DFPCL and MAL, for 100% of the ammonia plant capacity, which reduces the offtake risk, post the commissioning of the project. Ammonia is a key input for the chemical and fertiliser businesses of the promoter entities, and these businesses are expected to benefit over the long term from the cost savings arising from in-house ammonia production.

### Credit challenges

**Exposed to residual project execution risk** – PCL is setting up an ammonia manufacturing facility of 1,500 MTPD (~510,000 MTPA) at Taloja, Maharashtra, close to the existing facilities of DFPCL. The project had witnessed time (from Q4 FY2022 to Q1 FY2024) and cost overruns (from Rs 2,920 crore to Rs 4,350 crore) due to delays in land acquisition, the pandemic and some changes in project specifications. The cost escalations have been mainly due to an increase in the IDC component, EPC costs and some impact of rupee depreciation. However, in the last one year, there has been healthy project progress with no additional cost escalation. The company has incurred a capex of ~Rs. 3,673 crore till April 2023 and the balance capex will be incurred in the current fiscal.

Of the total planned debt, as per the revised funding mix, only around ~Rs. 183 crore is yet to be tied up. However, due to the healthy cash accruals of the Group in the last few years, including the current fiscal, and the fund being raised, the gap may also be funded through equity and internal accruals. Due to these factors, the credit metrics are expected to be better in the medium term compared to the earlier expectations. ICRA expects the offtake risks for the project to be limited, though a timely execution and ramp-up of the operations within the revised timeline and budget would remain a key sensitivity.

**Project economics exposed to spread between landed cost of imported ammonia and gas costs** – The selling price of ammonia to the parent company will be linked to the import price parity, whereas it would be exposed to the movement in gas costs on the input side. Its profitability would thus be exposed to the spread between the landed cost of imported ammonia and gas costs. However, ICRA also notes that the company has tied up a major portion of its gas requirements and is under discussions to tie up the balance gas. It will be crucial to have sufficient long-term gas contracts in place to ensure availability and mitigate the risks of a sharp increase in gas prices.

### Liquidity position

#### For the Provisional [ICRA]AA- (CE) (Stable) rating: Adequate

At a consolidated level, the company's liquidity position remains adequate, led by healthy accrual generation, decline in net working capital intensity and healthy financial flexibility. The cash flow from operations stood healthy at ~Rs. 430 crore in

FY2023. The cash flow has witnessed a healthy increase in recent years (~Rs. 1,157 crore in FY2022 and ~Rs. 990 crore in FY2021 compared with ~Rs. 515 crore in FY2020) and is also expected to be healthy in the current fiscal.

The company has a comfortable cushion available in the form of unutilised working capital limits. Further, DFPCL (consolidated) had a healthy free cash balance (including investment) of ~Rs. 1,000 crore as on March 31, 2023. It is expected to incur a capex of around ~Rs. 1,500 crore in FY2024 for the ammonia and TAN projects, including regular maintenance, which would be funded through a mix of debt and internal accruals. However, due to the long repayment tenure of the term loans, the annual debt repayments are likely to remain modest at around ~Rs. 270-290 crore in FY2024. The company has a healthy financial flexibility, allowing it to raise funds from the debt and equity markets, as demonstrated in the past.

#### For the [ICRA]A+ (Stable): Adequate

PCL's liquidity is adequate, and the company has access to sanctioned term loans for its funding requirement. For equity requirements, it is dependent on the parent entity, which also has adequate liquidity. The company's repayment for existing rupee term loan starts from FY2025 and in a scenario where the company opts for refinancing, the proposed NCD programme, will have bullet repayment at the end of 36 months with an option to redeem it at the end of 18 months.

### Rating sensitivities

#### For the Provisional [ICRA]AA- (CE) (Stable) rating

The ratings assigned to the Rs. 2,000-crore proposed NCD programme would remain sensitive to any movement in the rating or outlook of DFPCL ([ICRA]AA-(Stable)/[ICRA]A1+).

#### For the [ICRA]A+ (Stable)

**Positive factors** – The successful commissioning and stabilisation of the ammonia project within the revised timeline and budget and healthy cash accruals from the same could lead to an upgrade. An improvement in the credit profile of the parent group could also lead to an upgrade.

**Negative factors** – Any further time and cost overruns in the project, or weakening of linkages with the parent group, or any pullback in support from the parent could lead to a downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Chemical Industry</a> <a href="#">Rating Approach- Explicit Third-Party Support</a> <a href="#">Rating Approach- Implicit parent or group Support</a>
Parent/Group support	Parent company: Mahadhan AgriTech Limited (erstwhile known as Smartchem Technologies Limited).  ICRA has taken a consolidated view of MAL and its parent Deepak Fertilisers & Petrochemicals Corporation Limited (DFPCL) to arrive at rating of MAL (rated [ICRA]AA- (Stable)/ [ICRA]A1+).  The rating of PCL factors in the high likelihood of the parent extending financial support to it, should the need arise due to the strategic importance of PCL to the Group and the operational linkages once the plant commences operations. There also exists a track record of the parent entity extending support in the form of enhanced equity contributions to meet cost overruns. Further, the parent Group has extended partial corporate guarantee and letter of comfort to PCL's lenders for its facilities.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

## About the company

Performance Chemiserve Limited (PCL) is a step-down subsidiary of Deepak Fertilisers and Petrochemicals Corporation Limited (DFPCL). Mahadhan AgriTech Limited (MAL), which is a wholly-owned subsidiary of DFPCL, holds a ~94% stake in the company. The balance shareholding in the company is held by Robust Marketing Services Pvt. Ltd., which is a promoter group company. PCL is setting up an ammonia manufacturing facility of 1,500 MTPD (~510,000 MTPA) at Taloja, Maharashtra, close to the existing facilities of DFPCL.

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Executed version of corporate guarantee
2. Final executed term sheet for the transaction
3. Debenture trust deed
4. Legal opinion
5. Any other document as part of the transaction documents

## Validity of the provisional rating

In case the debt instrument/borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating will have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument/date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents in the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon a review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## Key financial indicators (audited):

### PCL-Not Applicable as a project stage company

DFPCL Consolidated	FY2022	FY2023
Operating Income (Rs. crore)	7,663.3	11,300.7
PAT (Rs. crore)	687.5	1220.9
OPBDIT/OI (%)	17.7%	19.2%
PAT/OI (%)	9.0%	10.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.18	1.20
Total Debt/OPBDIT (times)	1.91	1.67
Interest Coverage (times)	8.76	11.12

### About the corporate guarantee provider (Deepak Group):

The draft corporate guarantee is proposed to be provided by DFPCL, MAL and Deepak Mining Solutions Private Limited. DFPCL was incorporated in 1979 and the group is involved in the manufacturing of nitro-phosphate (NP), nitrogen phosphorous-potassium (NPK) and bentonite sulphur, fertilisers and industrial chemicals such as technical ammonium nitrate (TAN), methanol, nitric acid and iso propyl alcohol (IPA). The manufacturing facilities are located at Taloja, Dahej, Srikakulam and Panipat. It also owns a commercial mall at Pune. DFPCL's promoters hold a 45.46% stake in the company with the rest being held by public and institutional investors. DFPCL's fertiliser and chemical business verticals have inter-linkages in the form of use of common raw materials and synergies in the manufacturing processes. The capability of the business segments to attract a different set of investors and strategic partners in order to scale up the size and operations is significant and hence, in FY2018, DFPCL demerged its fertiliser and TAN businesses into a wholly-owned subsidiary, Mahadhan Agritech Limited (MAL, erstwhile Smartchem Technologies Limited (STL)), with effect from January 1, 2015.

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as on Apr 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
				May 23, 2023		Mar 27, 2023	Jan 16, 2023	Jul 29, 2022	Jun 14, 2021	Apr 14, 2020
1	Fund-based term loan	2,344.00	~1,957.00	[ICRA]A+ (Stable)		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (CE) (Stable)	[ICRA]A (CE) (Stable)	[ICRA]A (CE) (Stable)
2	Proposed NCD	2000.00	-	Provisional [ICRA]AA-(CE) (Stable)		-	-	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Proposed non-convertible debenture programme	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: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based term loan	FY2018	NA	FY2039	2,344.00	[ICRA]A+ (Stable)
NA	Proposed NCD	-	-	-	2,000.00	Provisional [ICRA]AA-(CE) (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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