Jun 13, 2023 (Revised)

Performance Chemiserve Limited: Rating reaffirmed and provisional rating finalised

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
Long term- Non-convertible debenture	-	2,000.00	[ICRA]AA-(CE) (Stable); provisional rating finalised
Proposed non-convertible debenture programme	2,000.00	-	-
Total	**4,344.00**	**4,344.00**	

**Instrument details are provided in Annexure-I*

Rating Without Explicit Credit Enhancement	[ICRA]A+

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the 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 the rating without factoring in the proposed explicit credit enhancement.

Rationale

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

ICRA has confirmed a provisional rating of [ICRA]AA-(CE) (Stable) assigned to the Rs. 2,000.00-crore non-convertible debentures of Performance Chemiserve Limited (PCL/the company). The rating carries a Stable outlook. PCL has shared the executed transaction documents and the provisional rating has been confirmed based on these documents, which are in line with the initial rating conditions. The finalisation of the rating follows the fulfilment of all the conditions under the structure as mentioned to ICRA, including the execution of the guarantee, and the executed documentation being in line with the required terms of the structure.

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 corporate guarantee provided by the Deepak Group and is legally enforceable, unconditional, irrevocable, covers the entire tenure and supports the entire facility. The Deepak Group providing the corporate 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 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 are 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 60th 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 as per the project requirements
- 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. While the plant was expected to be commissioned by May 31, 2023, delays in securing water pipeline connectivity have pushed back the project's commissioning to the end of June 2023 with alternative arrangements being made for the water supply. The water pipeline connectivity from the dedicated pipeline (12 KM pipeline for PCL's plant) is expected to be completed by the end of June 2023 which will be required for the continued operations of the plant.

PCL's loan account would have been classified as a non-performing asset (NPA) under the Reserve Bank of India's (RBI) asset classification norms as it was unable to achieve the commercial operations of the plant within two years of the originally envisaged date for commencement of commercial operations (DCCO) i.e., June 01, 2021. As a result, the company had to repay the term loans availed for funding the project capex using funds provided by MAL and DFPCL prior to May 31, 2023. The company will be raising fresh long-term funds to replace the funding provided by MAL and DFPCL in the near term. The company has already raised Rs. 900 crore through the current NCD issuance being rated and the remaining ~Rs. 1,100 crore will be funded in the near term through external borrowings. Revised CoD as approved by Debenture Trustee/Holders is August 15, 2023.

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.

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 MAL, 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 the profitability from the project is expected to be muted at current gas prices. ICRA also notes that the company has tied up a major portion of its gas requirements. It will be crucial to have sufficient long-term gas contracts in place to ensure continued 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 and its strong parentage.

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 the Deepak Group to PCL for the NCD issuance which is valid for the entire tenor and indicates enhanced promoter-level support for PCL. The Deepak Group supported PCL in repaying the entire term debt to the erstwhile bankers to avoid being classified as an NPA through internal source of funds. Given the parentage of DFPCL, PCL has been able to raise part of the long-term funds in a short span of time to replace the promoter funding provided to replace the term loans.

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 has 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. 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. While the project had achieved mechanical completion in early May 2023, the CoD was pushed back owing to delays in achieving water pipeline connectivity. The plant is expected to achieve CoD by the end of June 2023 as alternative arrangements have been made for water supplies. Revised approved CoD is August 15, 2023. The project, however, remains exposed to the residual risk related to the achievement of CoD in a timely manner.

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 uninterrupted availability and mitigate the risks of a sharp increase in gas prices.

Liquidity position

For the [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 core 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 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. 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. For the NCD programme, the company has to make a bullet repayment at the end of 36 months with an option to redeem it at the end of 18 months.

Rating sensitivities

For [ICRA]AA- (CE) (Stable) rating

The rating assigned to the Rs. 2,000-crore 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 significant time and cost overruns in the project impacting the credit profile, 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	Corporate Credit Rating Methodology Chemical Industry Rating Approach- Explicit Third-Party Support Rating Approach- Implicit parent or group Support
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 the 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 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 100% stake in the 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.

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 corporate guarantee is 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 in 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 businesses are inter-linked because of the common raw materials used 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 June 08, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Jun 13, 2023	May 23, 2023	Mar 27, 2023	Jan 16, 2023	Jul 29, 2022	Jun 14, 2021	Apr 14, 2020
1	Fund-based term loan	Long term	2,344.00	Nil	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (CE) (Stable)	[ICRA]A (CE) (Stable)	[ICRA]A (CE) (Stable)
2	NCD	Long term	2000.00	900.00	[ICRA]AA- (CE) (Stable)	-	-	-	-	-	-
3	Proposed NCD	Long term	-	-	-	Provisional [ICRA]AA- (CE) (Stable)	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple

Long-term non-convertible debenture	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)
INE02UG08015	**NCD**	June 06, 2023	9.75%	June 06, 2026	900.00	[ICRA]AA-(CE) (Stable)
Yet to be placed	**NCD**	-	-	-	1,100.00	[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

Corrigendum

Document dated June 13, 2023, has been corrected with revisions as detailed below:
Instrument details for NCD issuance under Annexure 1 on page no. 7 has been modified

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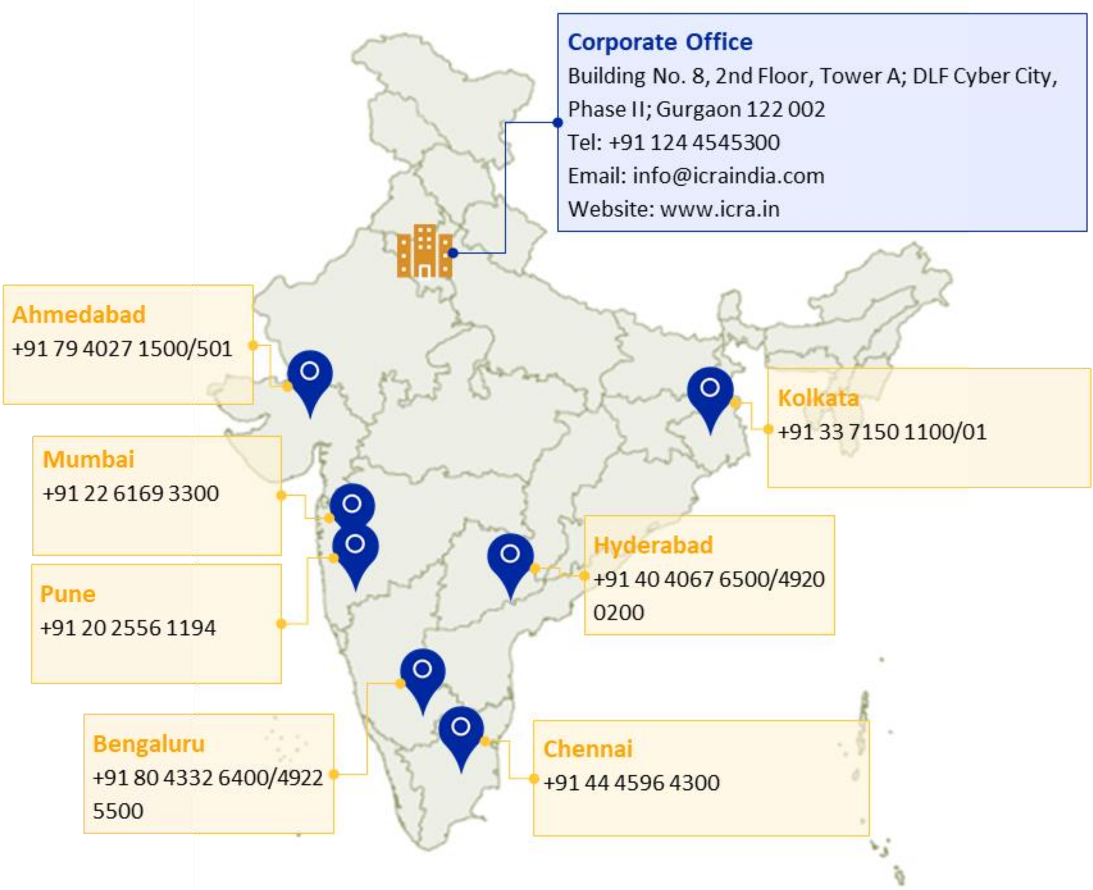

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