

February 21, 2024

Haldia Petrochemicals Limited: Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term limits - Term loans	2,691.0	2,691.0	[ICRA]AA- (Negative); reaffirmed; outlook revised to Negative from Stable
Long-term limits - Fund-based	500.0	500.0	[ICRA]AA- (Negative); reaffirmed; outlook revised to Negative from Stable
Short-term limits- Non-fund based limits^	2,500.0	2,500.0	[ICRA]A1+; reaffirmed
Long term – Non-fund based	3,508.0	3,508.0	[ICRA]AA- (Negative); reaffirmed; outlook revised to Negative from Stable
Long-term/Short-term unallocated	4,859.0	4,859.0	[ICRA]AA- (Negative)/[ICRA] A1+; reaffirmed; outlook revised to Negative from Stable
Issuer rating	-	-	[ICRA]AA- (Negative); reaffirmed; outlook revised to Negative from Stable
Short term – Commercial paper programme	100.0	100.0	[ICRA]A1+; reaffirmed
Total	14,158.0	14,158.0	

*Instrument details are provided in Annexure-I, ^ Interchangeability up to Rs.600 crore with fund-based limits; company has not placed any CP in recent times

Rationale

The revision in Haldia Petrochemicals Limited's (HPL) outlook to Negative factors in ICRA's expectation of the profit generation moderating in the near to medium term on the back of a supply glut in the petrochemical market globally which is exerting pressure on the spreads. This has constrained the tolling margins and the trend is likely to continue for some more time, given the tepid global demand and the supply build-up. During Q3 FY2024, the company reported sizeable operating losses due to the material compression in spreads. ICRA expects FY2024 and FY2025 to remain weak, with a material improvement expected FY2026 onwards. The moderation in profitability is likely to keep the debt metrics under pressure, especially in light of the proposed debt-funded capex towards downstream products like acetone-phenol.

The ratings, however, continue to factor in HPL's demonstrated track record in the petrochemical business, its experienced management and its leading market position in eastern India for polymers. The other comforting factors are its locational advantage in servicing eastern India and Asian export demand and a favourable long-term outlook for polymer demand from several end-users in India, especially given the low per capita consumption vis-à-vis the global average. The ratings also factor in the comfortable liquidity position of the company, reflected in cash and investments of ~Rs. 2,676 crore as on December 31, 2023, including non-current investments in quoted non-convertible debentures, as well as the encumbrance for various banking facilities (including debt service reserve account) and the low working capital intensity of the business.

ICRA also notes that the company has received a favourable verdict at the arbitral tribunal on the incentives to be received from the West Bengal government, although it has been challenged by the state government. The receipt of the incentives will further improve the company's liquidity position, although the timeline and the amount remain to be seen.

The ratings consider the cyclical nature inherent in the petrochemical business and the vulnerability of its profitability to the changes in import duty levels and the rupee-dollar movement. Further, the profitability has remained under pressure, especially since the latter half of the last fiscal as tepid global demand and excess capacity addition weighed on end-product prices. While the demand in India continues to be healthy, cheaper imports from some geographies are exerting pressure on the tolling margins of petrochemical companies, including HPL (average tolling margin for HPL of ~\$145-150/MT in FY2023 against ~\$185-190/MT in FY2022). The tolling margins declined further in 9M FY2024 to \$115/MT, thereby creating pressure on the profitability. The OPBDITA is expected to remain subdued for FY2024. Thus, HPL's leverage (total debt/OPBDITA), including the debt at HPL Technologies B.V., is likely to increase substantially as on March 31, 2024; however, the leverage is expected to improve thereafter.

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 revenues of \$567 million with gross profits of \$204 million in CY2022. While the revenues dipped due to external factors, including the geo-political Russia-Ukraine conflict, which negatively impacted the business operations, the backlog remains healthy. Notwithstanding the 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. Moreover, the debt on Lummus's books has no recourse to HPL. Nevertheless, the ability of Lummus Technology to service the \$1.4-billion debt on its books remains a key monitorable and any support extended by HPL to Lummus for a shortfall in debt servicing will be a key rating sensitivity.

HPL is in the process of acquiring a land parcel at Cuddalore, Tamil Nadu, under the liquidation process of Nagarjuna Oil Corporation Limited (NOCL), for ~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 at ~Rs. 4,127 crore as of March 2023. Any further material increase in loans and advances to Group companies, including Lummus Technology, remains a key rating sensitivity. Moreover, the company is planning to undertake a phenol-acetone capex under one of its subsidiaries, which can keep the overall debt levels elevated in the medium term.

ICRA has not factored in any other large long-term acquisition/investment by HPL. ICRA will review the ratings if the company was to embark on large debt-funded projects that impact 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 demand outlook for polyolefins demand in India - The domestic per capita consumption as well as the absolute consumption of commodity polymers are expected to show consistent 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 in setting up capacities for manufacturing value-added products to enhance its profitability. In the past, HPL had set up a butene1 (under its subsidiary) pygas de-sulphurisation plant. In addition to this, it has replaced its two naphtha and CBFS boilers with coal-based boilers. The company is also working on a strategic project to enhance its capacity utilisation by mitigating excess ethylene. This involves the conversion of surplus ethylene into propylene, which, in conjunction with the existing propylene and procured benzene, will be used to manufacture high-value products, namely phenol and acetone.

Comfortable liquidity position - The company has comfortable cash and liquid investments of ~Rs. 2,676 crore (including encumbrances owing to DSRA and SBLC requirements), which is adequate to cover the challenging industry landscape over the subsequent six months.

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. 6,700 crore as on December 31, 2023, and are expected to remain high in the medium term because of the capex plans. The high debt, coupled with the expected pressure on EBITDA generation, is likely to moderate the debt coverage indicators for FY2024. The scenario is likely to improve, going forward.

Profitability vulnerable to inherent cyclicalities in business, import duty levels and exchange fluctuations - The profitability remains vulnerable to the cyclicalities inherent in the petrochemical business, the import duty levels and foreign exchange fluctuations. These factors had impacted the profitability in the last few quarters and the same is likely to remain under pressure over the next few quarters as well. Moreover, the downcycle in margins is likely to continue in the near to medium term owing to supply overhang, ethylene over-capacity and tepid global demand. This is likely to keep the debt metrics moderated for some time. Accordingly, the tolling margins for all types of crackers are expected to face headwinds.

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 risk 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 cash balances/liquid investments (~Rs. 2,676 crores as of March 31, 2023) and cushion in the form of undrawn bank lines. Moreover, the capital structure remains comfortable. However, the company's planned capital expenditure may weigh on its leverage.

Rating sensitivities

Positive factors – The outlook on the long-term rating can be revised to Stable if the tolling margins and profitability improve, leading to an improvement in the debt metrics.

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

ESG risks

HPL, being present in the chemical industry, is exposed to environmental risks related to pollution, plastic use, air emissions, water discharge, etc. HPL is working towards water conservation, liquid discharge, use of renewable energy, etc. In the company's product profile, there is no proportion of banned category of plastics and HPL remains active in recycling plastics.

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, 2023, 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	FY2022	FY2023
Operating income	12,739.2	15,930.8
PAT	173.7	-711.0
OPBDIT/OI	11.3%	5.8%
PAT/OI	1.4%	-4.5%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	5.1	8.7
Interest coverage (times)	3.6	1.8

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

HPL Standalone	FY2022	FY2023
Operating income	11,826.5	14,343.3
PAT	279.5	-626.0
OPBDIT/OI	11.9%	3.9%
PAT/OI	2.4%	-4.4%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	2.5	7.2
Interest coverage (times)	5.9	1.8

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 (FY2024)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
				Feb 21, 2024	Sept 22, 2023	Sept 30, 2022	Sept 27, 2021	Feb 19, 2021	Sept 03, 2020	Jun 24, 2020
1 Term loans	Long term	2691.0	2978.0	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]AA-(Negative)
2 Fund-based	Long term	500.0	--	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]AA-(Negative)
3 Non-fund-based limits [^]	Short term	2500.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Non-fund based	Long term	3508.0	--	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]AA-(Negative)
5 Unallocated	Long term/Short term	4859.0	--	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[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+
6 Issuer rating	Long term	-	--	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]AA-(Negative)
7 Commercial paper programme	short term	100.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8 Proposed NCD programme	Long term	-	--	-	-	-	-	-	[ICRA]A+(Stable); Withdrawn	[ICRA]AA-(Negative)

[^] Interchangeability up to Rs.600 crore with fund-based limits; company has not placed any CP in recent times

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 non-fund based	Very Simple
Long-term/Short-term unallocated	Not Applicable
Issuer rating	Not Applicable
Short term – Commercial paper programme	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	January 2015	2.5 -7.5%	March 2030	2691.0	[ICRA]AA-(Negative)
NA	Fund-based	-	-	-	500.0	[ICRA]AA-(Negative)
NA	Non-fund based limits	-	-	-	2500.0	[ICRA]A1+
NA	Non-fund based	-	-	-	3508.0	[ICRA]AA-(Negative)
NA	Unallocated	-	-	-	4859.0	[ICRA]AA-(Negative)/ [ICRA]A1+
NA	Issuer rating	-	-	-	-	[ICRA]AA-(Negative)
NA	Commercial paper programme*	-	-	7-90 Days	100.0	[ICRA]A1+

Source: Company *-unplaced

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

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 FY2023

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

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