February 29, 2024 (Revised)

Performance Chemiserve Limited: Long-term rating reaffirmed; short-term rating assigned

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	1,744.00	[ICRA]A+ (Stable); reaffirmed
Long-term- Non-convertible debenture	900.00	900.00	[ICRA]AA-(CE) (Stable); reaffirmed
Long-term- Non-convertible debenture	1,100.00	0.00	[ICRA]AA-(CE) (Stable); reaffirmed & withdrawn
Long-Term – Fund based – Cash Credit	0.00	100.00	[ICRA]A+ (Stable); reaffirmed
Short-term – Non-fund based-others	0.00	500.00	[ICRA]A1; assigned
Total	**4,344.00**	**3,244.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A+

**Instrument details are provided in Annexure-I*

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

The rating of [ICRA]AA-(CE) (Stable) assigned to the Rs. 900.00-crore non-convertible debentures of Performance Chemiserve Limited is based on the credit substitution approach wherein the NCD programme of PCL is 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 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)
- Three 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 4.0 times, net debt/EBDITA remaining below 2.75 times
- 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 was successfully commissioned in Q2 FY2024. The company has incurred a total cost of ~Rs. 4,030 crore till September 2023 and will be incurring another Rs. 470 crore, including purchase of certain stores and spares within FY2024. The plant has a take-or-pay agreement with Group companies for 100% production which shall not be less than 4,50,000 MTPA which mitigates the offtake risk for the project. The company has also tied up medium term and long-term natural gas supply contracts which will ensure raw material availability for the plant. The plant has stabilised and is operating at healthy utilisation levels.

DFPCL’s consolidated operational profitability was impacted by Rs. 87 crore in Q2 FY2024 during the initial plant stabilisation phase. Unusually low ammonia prices also impacted the consolidated margins. The plant has now entered the stabilised phase delivering the rated capacities. 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 100% of the total project cost).

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.

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. 486 crore (including interest). ICRA will continue to monitor the development on this front.

The NCD programme of Rs. 1,100 crore was unplaced and the rating assigned to the proposed NCD programme was withdrawn at the request of the company and in line with ICRA's policy on withdrawal of ratings.

The Stable outlook on PCL’s long-term rating reflects ICRA’s expectations that PCL’s credit profile will remain stable, given the recent stabilisation 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. Given the parentage of DFPCL, PCL has displayed significant financial flexibility in raising long-term funding to replace the funds provided by the Group entities during mid-FY2024.

Low offtake risks – The company has entered into take-or-pay agreements with the promoter entities, DFPCL and MAL, for 100% production which shall not be less than 4,50,000 MTPA (~1,323 MTPD), which mitigates the offtake risk for 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

Moderate credit profile - The company has recently commissioned its 5,10,000-MTPA ammonia plant at Taloja in August 2023, with a capital outlay of Rs. 4,030 crore till September 2023 and will be incurring another Rs. 470 crore including purchase of certain stores and spares within FY2024. The overall credit metrics will remain moderate in FY2024 driven by the one-time stabilisation costs during the initial phase of commissioning. However, the same will witness healthy recovery in FY2025 driven by improvement in profitability, as the plant has stabilised and is operating at healthy utilisation levels. Further, PCL's offtake risk is mitigated as the plant has a take-or-pay agreement with Group companies for 100% production which shall not be less than 4,50,000 MTPA up to 4,50,000 MTPA.

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 PCL 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 notes that the company has also tied up medium term and long-term natural gas supply contracts, which will ensure raw material availability for the plant.

Liquidity position: Adequate

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

At a consolidated level, the company's liquidity position remains adequate led by healthy accrual generation supported by healthy financial flexibility of the company. The company has a comfortable cushion available in the form of unutilised working capital limits as indicated by the average working capital utilisation levels which stood at 39% for fund-based limits in the 12-month period ended on December 31, 2023. DFPCL had a healthy cash balance (including investment) of ~Rs. 1,320 crore on its books as on September 30, 2023 (~Rs. 1,100 crore as on March 31, 2023). It is expected to incur balance capex for ammonia, TAN and nitric acid projects during the next two years, funded through a mix of debt, equity infusion and internal accruals. As on September 30, 2023, the company had an outstanding external long-term debt of Rs. 3,175 crore. However, due to the long repayment tenure of the term loans, the annual debt repayments are likely to remain modest (~Rs. 122 crore in H2 FY2024, ~Rs. 389 crore in FY2025 and ~Rs. 535 crore in FY2026). The company has strong banking relationships and can also raise funds from the debt and equity markets, as demonstrated in the past. With funding tied up for the projects with a comfortable moratorium period and long tenure, its cash flows are anticipated to be adequate to meet the repayment obligations.

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

PCL's liquidity is expected to remain adequate, supported by the expectations of timely support from the parent in case of any cash flow shortfall. Given the strategic importance of the company to the Deepak Group, ICRA expects the Group to support the company for any cash shortfall if the cash flow from operations remain inadequate to service its debt servicing requirement.

Rating sensitivities

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

The rating assigned to the Rs. 900-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 – ICRA could upgrade PCL's ratings if the company is able to stabilise and scale up the operations, while demonstrating a healthy profitability and generating healthy cash accruals leading to improvement in the credit profile. An improvement in the credit profile of the parent group could also lead to an upgrade.

Negative factors – Pressure on PCL's ratings could arise if the company is unable to maintain healthy plant's operations on a consistent basis, and/or the revenue and profitability is weaker than expected, having an adverse impact on the company's overall credit profile. Further, the rating could be under pressure if the parent company's credit profile deteriorates, and/or the linkages between the parent and the company weaken.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Chemicals](#) [Policy on Withdrawal of Credit Rating](#)
Parent/Group support	Parent company: Mahadhan AgriTech Limited (erstwhile 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 ratings of PCL factor 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 for PCL's NCD programme. The analyst has followed a parent support uplift approach while rating PCL's bank facilities with MAL as the parent. PCL is a wholly-owned subsidiary of MAL
Consolidation/Standalone	The ratings are 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 (~5,10,000 MTPA) at Taloja, Maharashtra, close to the existing facilities of DFPCL.

About the corporate guarantee provider (Deepak Group):

The corporate guarantee is provided by DFPCL, MAL and Deepak Mining Solutions Private Limited for NCD programme. 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 at Taloja, Dahej, Srikakulam and Panipat. It also owns a commercial mall in Pune. DFPCL's promoters hold a 45.45% 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 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.

Key financial indicators (audited)

PCL	FY2022	FY2023	9M FY2024*
Operating income	4.7	7.0	636.9
PAT	5.5	6.2	(132.9)
OPBDIT/OI	74.7%	48.9%	-3.5%
PAT/OI	116.6%	88.2%	-20.9%
Total outside liabilities/Tangible net worth (times)	0.9	1.2	-
Total debt/OPBDIT (times)	317.4	563.3	-
Interest coverage (times)	175.5	344.0	(0.2)

*Source: Company, ICRA Research; * Unaudited; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

DFPCL – Consolidated	FY2022	FY2023	9M FY2024*
Operating income	7663.3	11300.7	6589.8
PAT	687.5	1220.9	237.6
OPBDIT/OI	18.3%	19.7%	12.9%
PAT/OI	9.0%	10.8%	3.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.2	-
Total debt/OPBDIT (times)	1.9	1.7	-
Interest coverage (times)	9.0	11.5	2.9

*Source: Company, ICRA Research; * Unaudited; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

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 29, 2024	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	1744.00	770	[ICRA]A+ (Stable)	[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	900.00	900.00	[ICRA]AA- (CE) (Stable)	[ICRA]AA- (CE) (Stable)	-	-	-	-	-	-
3	Proposed NCD	Long-term	-	-	-	-	Provisional [ICRA]AA- (CE) (Stable)	-	-	-	-	-
4	NCD	Long-term	1100.00	-	[ICRA]AA- (CE) (Stable); Reaffirmed	[ICRA]AA- (CE) (Stable)	-	-	-	-	-	-

					& Withdrawn						
5	**Fund-based - cash credit**	Long-term	100.00	-	**[ICRA]A+ (Stable)**	-	-	-	-	-	-
6	**Non-fund based - others**	Short-term	500.00	-	**[ICRA]A1**	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term non-convertible debenture	Simple
Long-Term – Fund based – cash credit	Simple
Short-term – Non-fund based – others	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	**Fund-based term loan**	FY2018	NA	FY2039	1100.00	[ICRA]A+ (Stable)
NA	**Fund-based proposed term loans**	NA	NA	NA	644.00	[ICRA]A+ (Stable)
NA	**Fund Based – cash credit**	NA	NA	NA	100.00	[ICRA]A+ (Stable)
NA	**Non-Fund Based Limits - others**	NA	NA	NA	500.00	[ICRA]A1
INE02UG07017	**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); Reaffirmed & Withdrawn

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 February 29, 2024, has been corrected with revisions as detailed below:

- Instrument details for NCD issuance under Annexure 1 on page no. 7 has been modified
- Reason for withdrawal of proposed NCD programme has been added under the rationale section on page no. 2

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