

March 03, 2020

## Indorama India Private Limited (erstwhile IRC Agrochemicals Private Limited): Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term-Fund based and Non-Fund based	2150.0	2150.0	[ICRA]A+(CE) (Stable)/[ICRA]A1(CE)
<b>Total</b>	<b>2150.0</b>	<b>2150.0</b>	

\*Instrument details are provided in Annexure-1

<b>Rating Without Explicit Credit Enhancement</b>			<b>[ICRA]A-/ [ICRA]A2+</b>
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Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

### Rationale

The above rating is based on the strength of the corporate guarantee provided by Indorama Corporation Pte. Ltd. (IRC), the parent of Indorama India Private Limited (IIPL) [erstwhile IRC Agrochemicals Private Limited (IAPL)], for the rated bank lines. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, IRC.

#### Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by IRC in favour of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. However, the guarantee has a payment mechanism which shall only trigger upon occurrence of event of default. Given these attributes, the guarantee provided by IRC is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]A- without explicit credit enhancement. In case the guarantor's rating undergoes a change in future, the same would reflect in the ratings of the aforesaid instruments. The ratings of these facilities may also undergo a change if, in ICRA's assessment, there is a change in the strength of the business links between the guarantor and the rated entity, or there is a change in the reputation sensitivity or a change in strategic importance of the rated entity of the guarantor.

#### Salient covenants related to the credit enhancement, as specified in the guaranteed documents

The Guarantor must ensure to adhere the following financial covenants on a standalone basis:

- DSCR not less than 1.15:1;
- ISCR not less than 2.5:1; and
- Total Net Worth (Standalone) not less than US\$ 1 billion.

The Guarantor must ensure to adhere the following financial covenants on a consolidated basis:

- Net Debt to Total Net Worth (Consolidated) ratio not more than 2.25:1; and
- Consolidated DSCR - Guarantor not less than 1.15:1.

The Borrower must ensure to adhere the following financial covenants

- Maximum Net Debt to Total Net Worth ratio of 2.5 times

## Key rating drivers and their description

### Credit strengths

#### **Strong parentage of Indorama Corporation Pte. Ltd. (IRC) (Singapore)**

IRC is one of the largest petrochemical players globally and has been operating in the petrochemical sector for more than 40 years and manufactures products across the petrochemical value chain e.g. polyethylene, polypropylene, spun yarns, polyester, medical gloves and fabrics. IRC also has vested interest in fertilisers in Nigeria, Senegal, Uzbekistan and India. During the CY2018 IRC posted revenues of US\$ 2,904.0 million and an operating profit of US\$ 927.7 million. As at CY2018 end, IRC had nearly US \$596 million of cash and liquid investments along with a revolving credit facility of US \$490 million (of which US\$ 290 million is unutilized and available for drawdown). Despite undertaking a large capex for setting up urea plant in Nigeria the gearing (Total Debt/Tangible Net Worth) of the company was 0.5 times while leverage (Total Debt/OPBDITA) was around 2.3 times at the end of CY2018. The bank lines of I IPL are backed by an unconditional and irrevocable corporate guarantee furnished by IRC.

#### **Established brand and retail distribution network acquired from Tata Chemicals leading to strong market share**

I IPL acquired the Haldia plant along with the brand name “Paras” and the large marketing setup of Tata Chemicals. The “Paras” brand is widely recognized by the farmers and commands a slight premium over other competing brands. I IPL holds nearly 40-50% market share in its key geographies of Bihar, West Bengal, Assam and Jharkhand. The marketing network of the company comprises of 960 dealers covering 40000 retailers.

#### **Raw material security owing to sourcing arrangement with ICS Senegal (a group company)**

The key raw material used in the manufacturing of DAP, NPK fertilisers and SSP are phosphoric acid, rock phosphate, ammonia, sulphuric acid and Muriate of Potash (MOP). The company has raw material sourcing arrangement with various international suppliers for its raw material requirements. Apart from this, the company sources most of its phosphoric acid requirement from Industries Chimiques du Senegal (ICS) where IRC holds 78% stake which ensures ready availability of raw material.

#### **Healthy outlook for fertilisers industry**

Demand outlook for urea and P&K fertilisers remains healthy for the current rabi season driven healthy sowing levels. With the need to feed growing population with limited availability of land, the need for improvement in farm productivity is expected to result in stable demand growth for fertilisers going forward. Thus the long term outlook for the industry in India is stable. Also softening of raw material prices in YTD FY2020 has partially offset the depreciation of the currency leading to stable contribution margin for P&K players.

### Credit challenges

**Limited track record of operations:** I IPL acquired the Haldia plant from Tata Chemicals in FY2019. In FY2019, the company operated the plant for 10 months. Accordingly, the company has limited track record of operations.

**Cyclical inherent in the fertiliser business:** The profitability of the company is vulnerable to the cyclical and volatility in the raw material prices. International DAP prices remained firm in major part of CY2018 because of production curtailments by few plants, slower ramp up of new capacities by Mosaic Inc and rising trend in raw material prices. Since beginning of CY2019, Sulphur prices have moderated which is a key raw material for manufacturing of phosphoric acid which in turn is used as raw material for manufacturing DAP. Additionally, the production from new capacities in Saudi Arabia has been rising at a slow pace which coupled with low DAP offtake in recent months has resulted in moderation in prices. International DAP prices are expected to remain near about the current levels as raw material prices most notably that of Sulphur and ammonia have eased and are expected to remain stable going forward.

**Vulnerability of profitability of fertiliser sector to regulatory policies and agro-climatic conditions:** The profitability of the fertiliser sector remains vulnerable to the regulatory policies set by the GoI. Agro-climatic risks like weak monsoon

also impact the profitability of the fertiliser sector as the industry has to offer higher discounts given the stressed condition of the end users at such times.

### Liquidity position: Adequate

The overall liquidity position of IIPL is driven by the liquidity position of its guarantor, IRC. As at CY2018 end, IRC had nearly US \$596 million of cash and liquid investments along with a revolving credit facility of US \$490 million (of which US\$ 290 million is unutilised and available for drawdown) and total outstanding debt of US \$2150 million. IRC liquidity is expected to remain adequate owing to healthy cash accruals from Nigerian Operations and healthy cash balances and liquid investments which are expected to be sufficient to cover its debt obligations and capex plans. On standalone basis, liquidity position of IIPL is expected to remain adequate supported by healthy cash and liquid investments, healthy cash accruals from operations, undrawn line of credit and no major capex plans in the near to medium term.

### Rating sensitivities

#### Positive triggers

- Substantial improvement in the scale of operations, cash accruals and debt protection metrics
- Improvement in the credit profile of Indorama Corporation Pte. Ltd., Singapore

#### Negative triggers

- Significant deterioration in the revenue, operating profits and debt protection metrics of the company
- Deterioration in the credit profile of Indorama Corporation Pte. Ltd., Singapore

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support</a>
Parent/Group Support	Parent Company: Indorama Corporation Pte. Ltd. The assigned ratings are based on unconditional, irrevocable corporate guarantee extended by Indorama India Private Limited's ultimate parent company –Indorama Corporation Pte Ltd.
Consolidation/Standalone	The rating is based on standalone financial statements of IIPL. For the analysis at parent level, ICRA has consolidated the financials of the various group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

### About the company IIPL (erstwhile IAPL)

IIPL was incorporated in September 2017 to acquire the Tata Chemicals' phosphate fertiliser plant located at Haldia (West Bengal). The Haldia plant has a capacity to produce 841,500 MTPA of NPK (660,000 MTPA of DAP equivalent) and 198,000 MTPA of Single Super Phosphate (SSP). The plant also has facility to produce 750 TPD of Sulphuric Acid. The plant and TCL's 'Paras' Brand were acquired on a slump sale basis. The effective date of acquisition was June 1, 2018 and the plant achieved turnover of about Rs 3622.5 crore and PAT of Rs 75.6 Crore in FY2019

### About the guarantor (IRC)

IRC is the holding company for the "Indorama Group" which was founded in 1975 by Mr. M.L. Lohia and his son Mr. S.P. Lohia. Mr. S.P. Lohia, Group Chairman and his son Mr. Amit Lohia, IRC's Vice Chairman are supported by a large group of experienced professionals managing IRC's global operations. The Indorama Group is one of the leading petrochemical producers engaged in manufacturing of petrochemicals and associated downstream products like

polyolefins, polyesters yarns, synthetic disposable gloves, fabrics, PET resin etc. The group is also engaged in production of fertilisers through its subsidiaries i.e. urea in Nigeria and phosphatic fertilisers in Senegal & India. It has also recently acquired a phosphate plant in Uzbekistan which is under turnaround stage.

### Key financial indicators of IIPL (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	NA	3622.5
PAT (Rs. crore)	NA	75.6
OPBDIT/OI (%)	NA	5.7%
RoCE (%)	NA	21.0*%
Total Outside Liabilities/Tangible Net Worth (times)	NA	3.2
Total Debt/OPBDIT (times)	NA	4.7
Interest Coverage (times)	NA	4.0
DSCR	NA	3.0

NA: The plant commenced operations in FY2019 and hence numbers of FY2018 is not relevant.

\*ROCE is higher as FY2019 was the first year of operations and opening balance of capital employed was lower.

### Key financial indicators of IRC (audited)

In USD millions	CY2017	CY2018
Operating Income	2,245.9	2,904.0
PAT*	466.0	608.0
OPBDIT*/OI (%)	31.5%	31.9%
RoCE* (%)	11.9%	13.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6
Total Debt/OPBDIT (times)	2.9	2.3
Interest Coverage (times)	7.3	8.5
DSCR*	2.5	2.8

Source: Indorama India Private Limited (erstwhile IRC Agrochemicals Private Limited), OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability -Capital Work -in Progress)

\*excluding the Share of Profit in associates amounting to US\$ 267 mn in CY2018 and US\$ 184 mn in CY2017.

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

### Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years							
		Type	Amount Rated	Amount Outstanding	FY2020		FY2019				FY2018	FY2017	
					03-March-2020	June 20, 2019	December 20, 2018	December 5, 2018	September 18, 2018	May 29, 2018			
1	Working capital limits	Short Term Non-Fund Based	0.00	-	-	-	[ICRA]A1(SO) (Rs 230.00 crore)	-	-	-	-	-	-
2	Working Capital Limits	Long Term/Short Term-Fund based and Non-Fund based	0.00	-	-	-	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 150.00 crore)	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 205.00 crore)	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 205.00 crore)	Provisional [ICRA]A+(SO) (Stable)/ Provisional [ICRA]A1(SO) (Rs 205.00 crore)	-	-	
3	Working Capital Limits	Long Term/Short Term-Fund based and Non-Fund based	2150.00	-	[ICRA]A+(CE) (Stable)/ [ICRA]A1(CE) (Rs 2150.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 2150.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 975.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 920.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 920.00 crore)	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 920.00 crore)	-	-	

Amount in Rs. Crore

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long Term/Short Term-Fund based and Non-Fund based	-	-	-	2150.00	[ICRA]A+(CE) (Stable)/ [ICRA]A1(CE)

Source: Indorama India Private Limited.

### Annexure-2: List of entities considered for consolidated analysis

Sr. No.	Company Name	Ownership	Consolidation Approach
1	Indorama Group Holdings Limited	100%	Full Consolidation
2	Indorama Holdings (I) Pte. Ltd.	100%	Full Consolidation
3	Indorama Investments Limited	100%	Full Consolidation
4	Savovic International Limited	100%	Full Consolidation
5	Indorama Energy Pte. Ltd.	100%	Full Consolidation
6	Indorama Enterprises Pte. Ltd.	100%	Full Consolidation
7	Indorama Group Investments Limited	100%	Full Consolidation
8	Indorama Global Trading AG	100%	Full Consolidation
9	Indorama Commerce DMCC	100%	Full Consolidation
10	Indorama Petrochemicals Holdings Pte. Ltd.	100%	Full Consolidation
11	Indorama Healthcare Pte. Ltd.	100%	Full Consolidation
12	Indorama Holdings B.V.	100%	Full Consolidation

### List of key operating entities held directly/indirectly by Indorama Corporation Pte Ltd.

1	Indorama Eleme Petrochemicals Limited (Nigeria)	65%	Full Consolidation
2	YTY group* (Malaysia)	100%	Full Consolidation
3	IRC Agrochemicals Private Limited (India)	100%	Full Consolidation
4	Indorama Eleme Fertilisers & Chemicals Limited (Nigeria)	76%	Full Consolidation
5	Industries Chimiques du Senegal (Senegal)	78%	Full Consolidation
6	PT. Indo-Rama Synthetics Tbk (Indonesia)^	59%	Full Consolidation
7	Indorama Industries Limited (India)	100%	Full Consolidation

\*YTY Group consists of Green Prospect Sdn Malaysia, YTY Industry Sdn Malaysia and PT Medisafe Technologies (Indonesia). These companies are wholly owned subsidiaries of Indorama Corporation Pte Limited.

^Including subsidiaries in Uzbekistan, Turkey, Srilanka & Singapore

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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