

February 19, 2021

Haldia Petrochemicals Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Limits- Term Loans	3,068.00	3,068.00	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Long-term Limits-Fund-based	381.00	731.00 [^]	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Short-term Limits- Non-fund Based Limits	1606.00	1505.00	[ICRA]A1+; reaffirmed
Long-term/Short-term Unallocated	5003.00	4754.00	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable; / [ICRA]A1+; reaffirmed;
Issuer Rating ¹	-	-	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Short Term – Commercial Paper programme	100.00	100.00	[ICRA]A1+; reaffirmed
Long Term-Non fund based	4000.00	4000.00	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Total	14,158.00	14,158.00	

*Instrument details are provided in Annexure-1, [^]of which Rs 500 crore of long term fund based limits are fully interchangeable with short term non-fund based limits

Rationale

The revision in outlook is on account of the scrapping of the plan to acquire an additional 7% equity stake in Lummus Technologies by Haldia Petrochemical Limited (HPL) from Rhone Capital LLC. Post the acquisition of 57% stake in Lummus Technologies in June 2020, HPL had planned to acquire an additional 7% stake which would have entailed an outgo of about ~\$70-75 million that was to be significantly debt funded. However, with the cancellation of plans to acquire the additional stake, the company has obviated the need to avail further debt and dip into its cash reserves. The revision in outlook also considers the better than anticipated financial performance of the company during 9M FY2021 owing to healthy tolling margins, marginal reduction in import duty on naphtha in the Union Budget 2021 as well as demand recovery. Pursuant to cessation of plans for further stake acquisition and a more benign industry scenario, the debt metrics of the company are expected to improve more than anticipated earlier, on a prospective basis. Nevertheless, any large debt funded acquisition and/or decline in tolling margins would continue to have a bearing on the credit profile of the company and remain key rating sensitivities.

In June 2020, in a JV with private equity (PE) firm Rhone Capital, HPL acquired the technology division of McDermott International Inc (MDR) for an enterprise value of ~\$2.668 billion. MDR hived off its technology business (Target) into a separate special purpose vehicle (SPV), which was put up for sale under Chapter XI of the US Bankruptcy Laws. The acquisition concluded at the bid value of \$ 2.668 billion and was funded as a Leveraged Buyout with a target company level (Lummus Technologies) debt of \$ 1.5 billion, while the balance was funded by a combination of equity and debt. HPL had acquired 57% equity stake for ~\$690 million while the balance 43% was acquired by Rhone Capital. The \$1.5 billion debt raised at Lummus

¹With effect from September 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details

Technologies has no recourse to the shareholders and has a \$ 175 million revolving credit facility. The foreign currency term loan of ~\$512 million raised at the level of HPL Technologies BV Netherlands (HTS) backed by an SBLC from an Indian bank will be serviced from the cash flows of HPL over a period of 10 years in the form of further investment in HTS. Despite the impressive credentials of the Lummus Technology division of MDR, the acquisition has significantly reduced HPL's cash reserves and increased its long-term debt even though the company hopes to realise substantial synergies over the medium to long term. ICRA has not consolidated the financials of Lummus Technologies while arriving at the ratings of HPL and hence, has not considered any incremental support to be provided by the latter to the former. Accordingly, the ability of Lummus Technologies to service the \$1.5 billion debt on its books remains a key monitorable and any support extended by HPL to the target company for shortfall in debt servicing will be a key rating sensitivity.

Apart from the aforementioned acquisition, the company also proposes to acquire 2,158 acres of industrial land in Cuddalore, Tamil Nadu under the liquidation of Nagarjuna Oil Corporation Limited (NOCL) for a consideration of Rs 600 crore. The proposed acquisition and investment, although in a phased manner and subject to milestones, will lead to depletion of cash reserves. ICRA also notes that HPL has been investing in subsidiaries and extending short term loans and advances to group companies, with the current total exposure at ~Rs. 1307 crore (excluding the recent acquisition). Of this, the company has invested about \$175 million in HPL Global, its trading subsidiary at Singapore to enable paper and physical trade with large counterparties and better commodity risk management. However, of this amount about \$90 million has been extended to group companies as security deposit, loans and advances. Any further material increase in loans and advances to group companies including Lummus Technologies remains a key rating sensitivity.

Additionally, the company plans to incur an expenditure of Rs 230 crore on setting up an R&D facility over FY2021 and FY2022 at a capital expenditure of Rs 530 crore in FY2021 which would impact the debt metrics on a net debt basis. Besides, the company incurred large inventory losses at FY2020 end owing to the sharp decline in naphtha and product prices. Accordingly, the operating profits declined to ~Rs 872 crore in FY2020 from Rs 1603 crore in FY2019. Nevertheless, as per unaudited and provisional results the operating profits improved significantly to Rs 1863.5 crore in 9M FY2021 owing to better than anticipated tolling margins. The company's tolling margins improved significantly to \$213/MT in 9M FY2021 from \$140/MT in FY2020 and \$188/MT in FY2019. Going forward, ethylene over capacity and downcycle in margins are projected through 2025; and the propylene market is tighter than ethylene but new 'on-purpose capacity' could lead to mild downcycle through 2023. Accordingly tolling margins are projected to remain below the last 10-year averages over the medium term.

ICRA notes that the company has signed non-binding MoUs with the state governments of Andhra Pradesh and Odisha for setting up refinery-cum-petrochemical complexes. Though the investments in any of the afore mentioned projects would be large, these plans are as yet preliminary and accordingly, ICRA has not factored in any large long-term acquisitions/investments by HPL (other than MDR's technology division and NOCL land). ICRA will review the ratings if the company was to embark on large debt funded projects that impacts its financial profile.

The ratings continue to factor in HPL's demonstrated track record in the petrochemicals business, the strength of its promoter, and its leading market position in the eastern Indian market for polymers. Its locational advantages in servicing eastern India and Asian exports demand, along with a favourable outlook for polymers demand in India over the long-term from several end-users are other rating comforts. The ratings also consider the cyclicity inherent in the petrochemicals business and the vulnerability of its profitability to the changes in import duty levels and the Rupee-Dollar movement. However, the pricing of HPL's key raw materials and finished products is largely based on import parity, limiting the impact of forex fluctuations on its overall profits.

Key rating drivers and their description

Credit strengths

Demonstrated track record, with established customers in the petrochemical business- The domestic polyolefins market has major participants—namely, 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 markets - HPL has enjoyed 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 enjoys logistical advantage in exporting to East Asian markets.

Favourable outlook for polyolefins demand in India - The domestic per capita consumption as well as absolute consumption of commodity polymers are expected to show secular growth due to various economic and demographic factors such as increase in urban population and rise in per capita income. Despite increasing concerns over single-use plastics and weakness in demand owing to the Covid-19 pandemic, which will curtail growth rate for polymers, ICRA expects the domestic consumption of commodity polymers to grow at a CAGR of 7-8% over the long term.

Value-added projects to improve returns from the business over the long-term - HPL set up a Butene-1 plant (under its subsidiary) with a capex of about Rs 300 crore and a pygas de-sulfurisation project at a capex of about Rs. 105 crore. Commercial production from the Butene-1 plant commenced from March 2019 and from the pygas de-sulfurisation plant in September 2019. In addition, the company has planned a project to change the fuel of two boilers from naphtha and CBFS to coal. The capex for the project is estimated at Rs 360 crore and would have short payback period owing to the substantial savings in power cost that would accrue to the company. While the capex plans would entail project execution risks, these are largely mitigated by HPL's experience in executing large and complex projects.

Significant improvement in liquidity position following robust cash accruals from operations since restart from January 2015 - After restarting its operations in January 2015, the company has performed significantly well. However, the operating profitability declined in FY2019 (due to plant shutdowns and a fire incident) and FY2020 (due to low tolling margins, inventory losses and plant shutdowns). Accordingly, the operating margin declined to 9.6% in FY2020 from 15.5% in FY2019 and 22.9% in FY2018. The net cash accruals of the company stood at ~Rs. 665.8 crore in FY2020 and Rs 1418 crore in FY2019 over net cash accruals of ~Rs 1,920 crore in FY2018. ICRA also notes that HPL booked an accrued income of Rs. 393.5 crore in FY2019 and ~Rs 200 crore in FY2020 on the basis of the West Bengal Incentive scheme and as agreed between The Chatterjee Group and West Bengal Industrial Development Corporation under share purchase agreement in 2015. However, the recovery of the same might be delayed given the tenuous fiscal position of the latter. The cash and cash equivalents declined from Rs. 4,673.3 crore as at FY2018 end to ~Rs. 2,631 crore as at December 2020 end owing to increase in net working capital intensity, capex undertaken, prepayment of debt, part payment for acquisition of MDR's technology division and investments in group companies.

During 9M FY2021 based on unaudited and provisional results, the company achieved the operating income of Rs. 6,558.9 crore and operating profits of Rs. 1,863.5 crore.

Credit challenges

Large debt funded acquisitions of the technology division of MDR and land parcel of NOCL as well as advances to other group companies leading to deterioration in debt metrics – The acquisition of MDR's technology division and proposed acquisition of NOCL's land apart from the advances extended to other group companies would reduce the cash reserves and increase the debt of HPL leading to weakening of its debt metrics.

Olefin cycle expected to remain weak in the near to medium term - The global operating rates of ethylene plants had peaked in CY2017; however, the industry is now passing through a phase of capacity investment. Owing to supply overhang, ethylene over capacity and downcycle in margins are projected through 2025. Nonetheless, the propylene market is tighter than ethylene but new 'on-purpose capacity' could lead to a mild downcycle through 2023. Accordingly, tolling margins for all types of crackers are expected to remain subdued and below their last 10-year averages over the medium term owing to a supply overhang, demand slowdown and more intense competition.

Vulnerability of profitability to cyclical inherent in the business, import duty levels and exchange fluctuations -Despite the current healthy cash accruals of the company, the profitability remains vulnerable to cyclical inherent in the petrochemical business, import duty levels and exchange fluctuations.

Operational risks from draft levels at Haldia port, through which HPL imports naphtha; sustainability of cost structure will also be sensitive to HPL’s ability to run its 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 and both the mother and daughter vessels with relatively lower weight are unloaded at the Haldia port. However, with the draft level stabilising off late, the risk emanating from 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 cost structure of the company.

Liquidity position: Adequate

The company has large cash reserves (~Rs. 2,631 crore as at December end 2020) aided by healthy tolling margins and high capacity utilisation of its plant in the last few years. Accordingly, the liquidity position of the company is expected to remain adequate, supported by healthy cash accruals and cash and liquid investments, which would be sufficient to meet the annual debt repayment obligations (including repayment of preference share) and capex plans. Additionally, the company has large unutilised cash credit limits which provide buffer for any liquidity requirements.

Rating sensitivities

Positive factors – Improvement in tolling margins and profitability leading to deleveraging and improvement in debt metrics could trigger a rating upgrade.

Negative factors – The ratings of HPL may be downgraded if net debt/OPBITDA (including debt for acquisition) exceeds 3.5 times on a sustained basis. Additionally, any material funding support to group companies including Lummus Technologies or any large acquisitions could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical 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, 2020, the company had four subsidiaries, which are all enlisted in Annexure-2.

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 52 crore shares by GoWB in tranches, 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	FY2019	FY2020
Operating Income (Rs. crore)	10698.6	10332.0
PAT (Rs. crore)	-309.5	-1437.2
OPBDIT/OI (%)	15.5%	9.6%
PAT/OI (%)	-2.9%	-13.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	2.2	4.0
Interest Coverage (times)	3.7	2.0

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 (FY2021)				Chronology of Rating History for the past 3 years											
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 12, 2021 (Rs. crore)	Date & Rating in			Date & Rating in FY2020			Date & Rating in FY2018						
				19-Feb-2021	August 2020	June 2020	13-Dec-2019	16-Sep-2019	12-April-2019	Jun 15, 2018	23-Feb-2018	25-Jan-2018	4- Dec-2017	30-June-2017	8-May-2017	
1	Long Term Limits- Term Loans	Long Term	3068.00	2,724.0	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA@	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Long-term Limits-Fund-based	Long Term	731.00*	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA@	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Short-term Limits- Non-fund Based Limits	Short Term	1505.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]AA- (Negative)	[ICRA]A1+ @	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Long-term/Short-term Unallocated	Long term/Short Term	4754.00	-	[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A1+	[ICRA]AA@ / [ICRA]A1+ @	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Stable)/ [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]A+ (Stable)/ [ICRA]A1+
5	Issuer Rating		-	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative) / [ICRA]A1+	[ICRA]AA@	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
6	Short Term-Commercial Paper	Short Term	100.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]AA- (Negative)	[ICRA]A1+ @	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
7	Long Term Non Fund Based	Long Term	4000.00	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A1+	-	-	-	-	-	-	-	-	-

&= Under watch with developing implications, *of which Rs 500 crore of long term fund based limits are fully interchangeable with short term non-fund based limits

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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long Term Limits-Term Loans	January 2015	9%	March 2029	3068.00	[ICRA]A+(Positive)
NA	Long-term Limits-Fund-based	-	-	-	731.00*	[ICRA]A+(Positive)
NA	Short-term Limits-Non-fund Based Limits				1505.00	[ICRA]A1+
NA	Long-term/Short-term Unallocated				4754.00	[ICRA]A+(Positive)/ [ICRA]A1+
NA	Issuer Rating				N.A.	[ICRA]A+ (Positive)
NA	Short Term – Commercial Paper programme			7-90 days	100.00	[ICRA]A1+
NA	Long Term Non-fund based	-	-	-	4000.00	[ICRA]A+(Positive)

Source: Company; *of which Rs 500 crore of long term fund based limits are fully interchangeable with short term non-fund based limits

Annexure-2: List of entities considered for consolidated analysis

Company Name	HPL Ownership	Consolidation Approach
Haldia Riverside Estates Limited	100.00%	Full consolidation
HPL Go Private Limited	100.00%	Full consolidation
Advanced Performance Material Private Limited	100.00%	Full consolidation
HPL Global Pte limited	100.00%	Full consolidation

Source: HPL annual report FY2020

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

ANALYST CONTACTS

K Ravichandran

044 4596 4301

ravichandran@icraindia.com**Prashant Vasisht**

0124 4545 322

prashant.vasisht@icraindia.com**Mohit Lohia**

01244545814

mohit.lohia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com**Helpline for business queries**

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com**About ICRA Limited:**

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

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.