April 07, 2021

Hindustan Urvarak & Rasayan Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	15,829.53	15,829.53	[ICRA]A (Stable); reaffirmed
Non-fund-based limits#	14,920.00	14,920.00	[ICRA]A (Stable); reaffirmed
Total	**15,829.53**	**15,829.53**	

**Instrument details are provided in Annexure-1; # Note: The non-fund-based limits are fully interchangeable with the term loans with total borrowing capped at Rs. 15,829.53 crore.*

Rationale

The rating takes into account the strong profile of the promoters of the company (including Indian Oil Corporation Limited (IOCL – rated [ICRA]AAA(Stable)/[ICRA]A1+), NTPC Limited (NTPC, [ICRA]AAA(Stable)/[ICRA]A1+) and Coal India Limited (CIL)), strategic importance of urea projects being executed by the company for the Government of India (GoI) as they are aimed at reducing urea import dependence, strong policy support and favourable demand supply scenario for urea in the country. HURL was incorporated to set-up three urea plants of 1.27 MMTPA capacity each at Gorakhpur (Uttar Pradesh), Sindri (Jharkhand) and Barauni (Bihar) involving a total capital investment of ~Rs. 25,000 crore (earlier estimate of Rs. 21,000 crore). Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) also hold 7.33% and 3.66% equity respectively in the company as the projects being revived are being setup on the land of these companies. The fertilizer plants setup by FCIL and HFCL had become defunct in early 1990's and the current project involves setting up of new urea plants at the existing sites. The rating also factors in the Sponsor Support Undertaking (SSU) provided by the promoters to the lenders wherein, the former have agreed to fund any cost over runs to ensure the target debt:equity ratio for the projects. The rating also considers the sanction of an interest free loan of Rs. 1,257.8 crore for the company which will be used to fund the Interest During Construction (IDC), thus reducing the interest-bearing loan by an equivalent amount resulting in saving on the interest to be paid. The loan equivalent to the IDC till date has been received by the company in March 2021. All three projects of the company have been delayed by about 9 months each due to the Covid-19 lockdown and the restrictions thereafter and delays in the receipt of certain long lead items for Sindri and Barauni. However, since September 2020, the number of people deployed at the projects has surpassed the pre-Covid levels and all the equipment have been received on site HURL now expects to commission the Gorakhpur plant by January 1, 2022 (March 31, 2021 earlier), the Sindri plant by April 1, 2022 (June 30, 2021 earlier) and the Barauni plant by April 1, 2022 (June 30, 2021 earlier). The projects have also witnessed cost over-runs on account of rupee depreciation, change in scope of Non-LSTK contracts, higher cost outgo for natural gas to be used during commissioning, higher margin money requirement for working capital and higher interest during construction due to the delay in the project commissioning. The total project outlay has increased to Rs. 25,121 crore from Rs. 21,106 crore earlier. The cost overrun will be funded with 51% debt and remaining through equity. With the increase in the capital outlay and the delay in commissioning the project return metrics have moderated vis-à-vis initial expectations. The debt repayment schedule will also shift inline with the revised commissioning dates.

The rating is however constrained by project implementation risk owing to large size of the projects, partly mitigated by the Lump Sum Turnkey (LSTK) mode of contract execution adopted on a fixed price in foreign currency and fixed tenure basis; vulnerability of profitability and cash flows of fertiliser sector to regulatory policies, timely payment of subsidy by the GoI and agro-climatic conditions.

The zero date for the Gorakhpur project is April 1, 2018 while that of Sindri and Barauni projects is June 30, 2018. The LSTK contractor for Gorakhpur project is Toyo Engineering with the technology licensors M/s KBR Inc. USA (for Ammonia) and Toyo Engineering, Japan (for Urea). The LSTK contractors for Sindri and Barauni projects are a consortium of TechnipFMC, Technip

India and L&T Hydrocarbon with project licensors being Haldor-Topsoe, Denmark (for ammonia) and Saipem, Italy (for Urea). The project management consultant is Projects & Development India Limited (PDIL) for all three projects.

The outlook on the rating is Stable as ICRA expects the projects to be completed within the revised timelines and revised cost estimates. The credit profile of the entity is also expected to remain stable as urea realisations would be driven by the New Urea Investment Policy-2012 (NIP-2012) which assures a floor and ceiling of 12% and 20% post tax return on equity for the projects. The returns for these projects will however be lower than the normative returns due to higher capital outlay vis-à-vis the capital outlay envisaged in the policy.

Key rating drivers and their description

Credit strengths

Strong sponsors i.e. IOCL, NTPC and CIL being the Maharatna PSUs with strong credit profiles with entire equity tied up- ICRA derives comfort from the strong credit profile of HURL's lead sponsors i.e. CIL, IOCL and NTPC as their long project execution experience and robust financial risk profile are expected to aid project implementation. The lead promoters i.e. CIL, NTPC and IOCL each own 29.67% of equity while 7.33% is owned by Fertiliser Corporation of India Limited (FCIL) and remaining 3.66% by Hindustan Fertiliser & Chemicals Limited (HFCL). The equity ownership will get revised post infusion of additional equity by the lead promoters of the company. The company also benefits from the strong governance structure proposed, wherein senior level Directors from the sponsors form part of Board of Directors and the post of Chairman of HURL is rotated between the three main sponsors every three years. Currently, Mr Shrikant Madhav Vaidya, the Chairman of IOC, is the Chairman of HURL and Mr. A K Gupta, the Managing Director of the company was earlier working with NTPC.

Strategic importance of the projects as the GoI aims to reduce import dependence for urea: Revival of defunct urea plants holds strategic importance for GoI as it aims to become self-sufficient in meeting urea demand and reduce its reliance on imports as in the recent past 20%-27% of the demand of urea in the country has been met through imports. Thus, the upcoming plants are expected to replace urea imports. The GoI has also sanctioned an interest free loan of Rs. 1,258 crore with a ballooning repayment structure for HURL to meet the IDC expenses resulting in cost saving for the company.

Favourable demand-supply scenario of urea in India- Urea consumption in India continues to outstrip the domestic urea production leading to significant reliance on imports. Urea continues to be preferred choice over P&K fertilisers owing to its significantly lower retail price. As a result, the demand will continue to outstrip indigenous supply and thus the market for indigenously produced urea remains favourable with low offtake risk for domestic production.

Strong policy support under NIP-2012- HURL's projects will be governed by the New Urea Policy-2012 (NIP-2012). The policy offers a pass-through of increase in gas prices by raising urea prices by $2/MT with every $0.10/mmbtu rise in the gas price (up to $14/mmbtu). At each level of gas price (between USD 6.5/mmbtu to USD 14/mmbtu), different floor and ceiling prices are designed to achieve 12% and 20% post-tax return on equity (RoE) respectively, these being the theoretically minimum and maximum return. The returns earned by these projects will be lower than the theoretical returns given the higher capital outlay for these projects vis-à-vis the capital outlay factored in while calculating normative returns. The Cabinet Committee on Economic affairs (CCEA) had amended NIP-2012 by replacing the clause for "guaranteed buyback" by domestic production by companies in October 2014, exposing these projects to off-take risk in case international urea prices were to decline significantly. However, the intent of the GoI to continue the prevalent practice of first off-taking entire domestic production before resorting to imports should partly mitigate this risk.

Credit challenges

Project implementation risk owing to large size of the project; largely mitigated by the LSTK nature of contract execution on a fixed price and fixed tenure basis- HURL is exposed to project implementation risk owing to large size of the projects. The projects are being executed on an LSTK mode on a fixed price and fixed tenure basis. The project execution risk has been transferred to the contractors with the contracts including provision for damages for delay in project completion.

Vulnerability of profitability of the fertiliser sector to regulatory policies and agro-climatic conditions- Profitability of the fertiliser sector remains exposed to risks emanating from variability in agro-climatic conditions as a major part of domestic agriculture is dependent on monsoon. Profitability of the sector also remains susceptible to the regulatory policies of GoI as has been witnessed in tightening of energy norms under NUP-2015. Moreover, with around 78%-80% total realization for HURL coming by way of subsidy, timely receipt of subsidy will be important for the company's key credit metrics and liquidity position. With the clearance of the subsidy backlog for the sector in FY2021 and expectation of timely receipt of subsidy going forward, the company may not face cashflow mismatches due to subsidy delays, although the budgetary allocation for fertiliser subsidy going forward will remain a key driver of the timely receipt of subsidy from the GoI.

Moderate financial risk profile characterised by high gearing levels and modest coverage indicators in the initial years- The financial risk profile of the company will remain subdued in the initial phase of operations owing to significantly large amount of term loans availed for project execution. Any further cost over runs if funded through additional debt will lead to further weakening of the capital structure and credit protection metrics. However, inclusion of penalty on the LSTK contractor in case of delay in project execution will act as a key mitigant for project cost over runs.

Liquidity position: Adequate

HURL's liquidity position is expected to remain adequate given the availability of sanctioned term loans to meet the capex requirements. Additionally, the strength of the promoters and their ability to infuse funds in order to support project outlay provides comfort.

Rating sensitivities

Positive factors - Commissioning of the projects within the revised timelines and stabilization of the projects thereafter could lead to a rating upgrade.

Negative factors- Any further notable delay in project execution and /or material cost over-run resulting in weakening of debt metrics for the project. Any reduction in the linkages and/or change in the support philosophy will lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	**Parent: Indian Oil Corporation Limited, NTPC Limited and Coal India Limited** The ratings factor in the parentage of IOC, NTPC and CIL being the lead promoters of the project.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the projected financials of HURL on a standalone basis.

About the company

Hindustan Urvarak & Rasayan Ltd. (HURL) is a Joint Venture Company of National Thermal Power Corporation (NTPC), Coal India Limited (CIL), Indian Oil Corporation Limited (IOCL), Fertiliser Corporation of India Limited (FCIL) and Hindustan Fertiliser Corporation Limited (HFCL). NTPC, IOCL and CIL each holds 29.67% of equity while 7.33% is held by FCIL and 3.66% by HFCL. HURL was incorporated on 15th June 2016 for setting up gas-based urea manufacturing plants at Gorakhpur (Uttar Pradesh), Sindri (Jharkhand) and Barauni (Bihar), each with capacity of 1.27 MMTPA.

Key financial indicators (audited, 9M FY2021 numbers are un-audited)

HURL Standalone	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	0.0	1.5	1.5
PAT (Rs. crore)	13.4	0.0	-2.5
OPBDIT/OI (%)	NM	-677.1%	-223.5%
PAT/OI (%)	NM	3.2%	-161.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	2.5	3.5
Total Debt/OPBDIT (times)	-54.3	-396.5	-1,976.1
Interest Coverage (times)	NM	NM	NM

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: HURL, ICRA research; *Un-audited; Note: The company is in project phase and does not have operations currently.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					April 7, 2021	**April 13, 2020**	**April 12, 2019**	**-**
1	Term Loans	Long Term	15,829.53	8995.32	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	Non fund based LC/BG	Long term	14,920.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-

Amount in Rs. crore; Note: The non-fund-based limits are fully interchangeable with the term loans with total borrowing capped at Rs. 15,829.53 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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term Loans	March 2018	SBI 1 year MCLR+50 bps	March 2033	15,829.53	[ICRA]A (Stable)
-	Non fund Based LC/BG	-	-	-	14,920.00	[ICRA]A (Stable)

Source: HURL; *Note: The non-fund-based limits are fully interchangeable with the term loans with total borrowing capped at Rs. 15,829.53 crore.*

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

Company Name	HURL's ownership	Consolidation Approach
NA	NA	Na

Source: *HURL*

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