September 25, 2023

Indorama India Private Limited (erstwhile IRC Agrochemicals Private Limited): Ratings reaffirmed; ratings of bank facilities of Rs. 900 crore withdrawn and simultaneously [ICRA]AA- (CE) (Stable)/[ICRA]A1+ (CE) assigned

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	4,400.00	4,400.00	[ICRA]AA-(CE) (Stable) /[ICRA]A1+(CE); Reaffirmed
Term loans	1,150.00	1,150.00	[ICRA]A (Stable); Reaffirmed
Long-term/Short-term – Fund based and non-fund based	1,000.00	100.00	[ICRA]A (Stable)/ [ICRA] A1; Reaffirmed
Long-term/Short-term – Fund based and non-fund based	-	900.00	[ICRA]A (Stable)/[ICRA]A1; withdrawn and simultaneously [ICRA]AA- (CE) (Stable)/ [ICRA]A1+ (CE) assigned
Total	**6,550.00**	**6,550.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A/[ICRA]A1

**Instrument details are provided in Annexure-1*

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 CE ratings are based on the strength of the corporate guarantees provided by Indorama Corporation Pte. Ltd. (IRC), the ultimate parent of Indorama India Private Limited (IIPL), for IIPL's rated bank lines.

The rating action on Rs. 900-crore bank facilities follows the execution of the corporate guarantee deed by IRC in favour of the bank facilities of IIPL rated by ICRA, covering all the attributes of a strong form of explicit third-party support as described in ICRA's methodology, Rating Approach – Explicit Third-Part Support. Accordingly, the ratings of [ICRA]A (Stable)/[ICRA]A1 stand withdrawn and simultaneously the ratings of [ICRA]AA-(CE) (Stable)/[ICRA]A1+(CE) have been assigned to the Rs. 900 crore bank facilities, as per ICRA's Policy on Withdrawal of Ratings.

For the [ICRA]AA-(CE) (Stable)/[ICRA]A1+ (CE) rating

The ratings reaffirmation factors in the healthy credit profile of IRC (on a consolidated basis including Group companies; Indorama Group or Group), reflected in its healthy performance in CY2022, owing to the run up in the prices of several of its products and higher volumes. In CY2022, the Group clocked revenues of USD 6.93 billion and achieved bottom line of USD 2.17 billion. As per estimates for H1 CY2023, the Group clocked revenues of USD 2.8 billion and EBITDA of ~USD 850 million. The performance of the Group is expected to moderate in CY2023 against CY2022, as the prices of fertilisers have normalised from elevated levels of CY2022. Fertilisers have contributed 50-60% of the consolidated operating profit before depreciation, interest and tax (OPBDITA) in the past and remain the key business segment for the Group, however owing to increase in the prices of the key fertilisers in the international markets, the OPBDITA from this segment improved materially and formed around 85% of the total OPBDITA in CY2022. This translated into healthy accruals and strong liquidity position for IRC, reflected in the sizeable cash and liquid investments of more than USD 1.9 billion as on June 30, 2023. The leverage indicator (net debt/EBITDA) improved to 0.32 times as on December 31, 2022, from 0.4 times as on December 31, 2021, owing to significant improvement of the EBITDA and build-up of cash.

The ratings, however, are tempered by the vulnerability of profitability to the inherent volatility in commodity prices as well as fluctuations in foreign currency exchange rates. Further, the Group has completed/is undertaking a few acquisitions/sizeable capex which is likely to increase the reliance on debt, although the capital structure is likely to remain comfortable. Moreover, the sustainability of cash flows from the new acquisitions remains to be seen.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the guarantees 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 and has a well-defined payment and invocation mechanism, although the same is post default in nature. 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]AA-(CE)/ [ICRA]A1+(CE) against the ratings of [ICRA]A/[ICRA]A1 without explicit credit enhancement. In case the guarantor's rating or the unsupported rating of IIPL 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.

For the [ICRA]A (Stable)/[ICRA]A1 rating

IIPL's ratings also factor in the benefits derived by its strong parentage (the Indorama Group) in the form of the continued operational synergies and financial flexibility. IIPL completed the acquisition of Indo Gulf Fertilisers (IGF) on January 1, 2022, and the urea operations have stabilised, and this plant is highly energy efficient resulting in healthy savings.

Further, the company continues to benefit from its established brand, wide retail distribution network and its raw material sourcing arrangements (including that for phosphoric acid with a Group company). ICRA expects IIPL to benefit from the healthy demand outlook for the fertiliser industry, coupled with the accrual contribution from the urea plant and the existing business of IIPL, which will aid the strengthening of the coverage metrics in the medium term.

The prices of key raw materials for the fertiliser business increased sharply, which resulted in muted profitability in some of the complex fertilisers in the previous fiscal. Moreover, IIPL reported inventory losses in FY2023 owing to retrospective revision in the subsidy rates. However, after witnessing pressures in the profitability in the NPK segment in the previous fiscal, IIPL's performance witnessed an improvement in Q1 FY2024 and is likely to sustain at least in Q2 FY2024 with the moderation in the raw material prices. Afterwards, the same remains contingent on the revision in the nutrient-based subsidy rates which are scheduled for revision w.e.f. October 01, 2023. The spandex business has also been reporting operating losses since the removal of anti-dumping duty in May 2022. The situation is likely to improve in H2 FY2023, however the same remains to be seen. The urea business on the other hand is performing well and is generating steady cash flows with energy consumption well below the normative norm, resulting in energy savings.

The ratings are, however, constrained by the susceptibility of performance of domestic industry participants, including IIPL, to regulatory policies governing the fertiliser sector and agro-climatic risks. Moreover, profitability remains vulnerable to the volatility in raw material prices and the cyclicality inherent in the fertiliser business. Also, the company has a limited track record of operations, given that the fertiliser plant was acquired from Tata Chemicals in June 2018 and the urea plant was acquired in January 2022.

Salient covenants related to the credit enhancement

The Guarantor must ensure to adhere the following financial covenants on a standalone basis:
- DSCR not less than 1.15 times;
- ISCR not less than 2.5 times; and
- Total Net Worth (Standalone) not less than $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 times; and
- Consolidated DSCR - Guarantor not less than 1.15 times

Key rating drivers and their description

Credit strengths

Strong parentage aids operational and financial flexibilities; corporate guarantee extended for IIPL's working capital bank lines - A global business conglomerate, IRC, is one of the largest petrochemical and fertiliser players. It has been operating in the petrochemical sector for more than four decades and manufactures products across the petrochemical value chain, including polyethylene, polypropylene, spun yarns, polyester, medical gloves, PET resin and fabrics. IRC is also one of the largest fertiliser players in the world and has interest in fertilisers in Nigeria, Senegal, Uzbekistan, Brazil, Georgia and India. In CY2022, the Group clocked revenues of USD 6.93 billion and achieved bottom line of USD 2.17 billion. For H1 CY2023, the Group reported revenues of USD 2.8 billion and EBITDA of ~USD 850 million (on provisional basis). A moderation in performance in the current fiscal (as compared to previous year) is expected on account of correction in the prices of fertilisers. IIPL benefits from the continued operational synergies and financial flexibility offered by its strong parentage. Also, the credit enhancement in the form of the corporate guarantee by IRC for IIPL's working capital facilities reinforces the commitment of the former.

Established brand and retail distribution network - IIPL acquired a Haldia-based plant along with the brand name Paras and the large marketing set up of Tata Chemicals. The Paras brand is widely recognised by farmers and commands premium over other competing brands. IIPL holds a sizeable market share in its key geographies of Bihar, West Bengal, Assam and Jharkhand. The acquisition of IGF has further strengthened IIPL's competitive position and distribution network.

Raw material arrangement with Group company - The key raw materials used in manufacturing phosphatic fertilisers and single super phosphate (SSP) are phosphoric acid, rock phosphate, ammonia, sulphuric acid and muriate of potash (MOP). The company has raw material sourcing arrangements with various international suppliers for its raw material requirements. Apart from this, it sources large volumes of its phosphoric acid requirement from Industries Chimiques du Senegal (a Group company), which ensures ready availability of raw material.

Healthy outlook for fertilisers industry - IIPL acquired the urea unit of Indo Gulf Fertilisers in January 2022. This plant is highly energy-efficient and benefits from healthy energy savings. The benefits from energy savings, which increased sizeably last fiscal when pooled gas prices were high, have moderated but continue to be comfortable.

Credit challenges

Vulnerability of profitability to volatility in raw material prices and cyclicality inherent in fertiliser business - The profitability of the company is vulnerable to the cyclicality inherent in the sector and the volatility in raw material prices. The prices of key raw materials for the fertiliser business have increased sharply and the same remained higher than the announced nutrient-based subsidy rates, resulting in muted profitability in the NPK segment. Moreover, the profitability going forward, remains hinged on the next revision in the NBS rates.

Performance remains susceptible to regulatory policies and agro-climatic conditions - The performance/profitability of the industry participants, including IIPL, remains vulnerable to the regulatory policies governing the sector. The under-budgeting of subsidies in the past drained the profitability of the sector. The allocation for FY2024 is around Rs. 1,750 billion and ICRA expects that the allocation for NPK fertilsiers to remain inadequate to meet the sector's requirement for the year. Nevertheless, ICRA expects the GoI to make additional allocations during the year. However, issues like inverted duty structure for the phosphatic segment continue to moderate the industry's performance. The performance of the sector also depends on the monsoon as it directly impacts the agriculture sector, the end-user of fertilisers.

Limited track record of operations - IIPL acquired a Haldia-based plant from Tata Chemicals in June 2018 and thus, it has a limited track record of operations. Despite this, the company has scaled up its operations steadily and improved its profit margins, which were suppressed before the acquisition due to operational/raw material sourcing challenges. Further, the company acquired a urea unit in January 2022 and has been operating it since then.

Liquidity position:

Liquidity of Guarantor – Strong

IRC's liquidity is expected to remain strong, supported by healthy internal accrual generation and sizeable cash balances/liquid investments of more than USD 1.9 billion as of June 2023, on a consolidated basis. Further, undrawn bank facilities in excess of $2 billion provides additional comfort. The cash accrual generation is expected to remain comfortable to meet the debt repayment liability of the Group on a consolidated basis. The Group is also undertaking capex across key business segments, which will be funded through a mix of debt and internal accruals.

Liquidity of IIPL – Strong

The liquidity position of IIPL is expected to remain strong, supported by expectations of comfortable internal accrual generation and cushion in the form of undrawn bank lines. Moreover, the company enjoys strong financial flexibility from being a part of the Indorama Group. There is no major planned capex going forward.

Rating sensitivities

Positive factors – Ratings can be upgraded if IRC sustains its healthy profitability and credit metrics.

Negative factors – Significant deterioration in the revenue, cash accrual generation and debt protection metrics of IIPL would be a negative factor. Deterioration in the credit profile of IRC or any weakening of the linkage between IIPL and IRC could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology and other relevant cross-sector methodologies Rating Methodology for Fertilise Entities Policy on Withdrawal of Credit Ratings
Parent/Group Support	For working capital limits: Guarantor/Ultimate Parent Company: Indorama Corporation Pte. Ltd. The assigned ratings are based on unconditional, irrevocable corporate guarantees extended by IIPL's ultimate parent company – Indorama Corporation Pte. Ltd. (IRC) For term loans and other non-guaranteed limits: ICRA has considered the benefits that IIPL derives from the parentage of IRC
Consolidation/Standalone	The ratings are based on standalone financial statements of IIPL. For the analysis at guarantor/ultimate parent level, ICRA has considered the consolidated financials of IRC and its various Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among these

About the company

IIPL was incorporated in September 2017 to acquire Tata Chemicals' phosphate fertiliser plant at Haldia (West Bengal). The Haldia plant has a capacity to produce 8,41,500 MTPA of NPK (660,000 MTPA of DAP equivalent) and 1,98,000 MTPA of single super phosphate (SSP). The plant also has the facility to produce 750 TPD of sulphuric acid. The company acquired the plant and TCL's Paras brand on a slump-sale basis, with the effective date of acquisition being June 1, 2018. In addition to the fertiliser business, the spandex yarn manufacturing business of the Indorama Group has been demerged from another Group entity into IIPL, with effect from October 1, 2019. The manufacturing facility of the spandex business is at Baddi, Himachal Pradesh. IIPL completed the acquisition of Indo Gulf Fertilisers (IGF) on January 1, 2022, and correspondingly added 1.1-MMTPA capacity of manufacturing urea.

About the Guarantor (IRC)

IRC is the ultimate holding company for global business conglomerate - 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 involved in the manufacture of petrochemicals and associated downstream products like polyolefins, polyesters yarns, synthetic disposable gloves, fabrics, PET resin, etc. The Group also produces fertilisers (including blending) through its subsidiaries in Nigeria, Senegal, Uzbekistan, Brazil, Georgia and India.

Key financial indicators – IIPL (audited)

IIPL	FY2022	FY2023
Operating income (Rs. crore)	5,428.7	11,173.0
PAT (Rs. crore)	387.4	-168.5
OPBDIT/OI (%)	12.1%	1.5%
PAT/OI (%)	7.1%	-1.5%
Total outside liabilities/Tangible net worth (times)	2.4	2.7
Total debt/OPBDIT (times)	3.9	12.7
Interest coverage (times)	6.9	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Key financial indicators – IRC (audited)

IRC	CY2021	CY2022
Operating income (USD Million)	5,092.1	6,934.4
PAT (USD Million) excluding share of profit from associates	1,745.1	1,899.9
OPBDIT/OI (%)	42.1%	32.1%
PAT/OI (%)	34.3%	27.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	1.3	1.2
Interest coverage (times)	24.6	16.3

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 (Rs. crore) as on March 31, 2023	Date & rating in		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
					Sep 25, 2023	May 25, 2023	Jan 24, 2023	Mar 25, 2022	June 8, 2021	Nov 24, 2020	July 31, 2020
1	**Fund based and non-fund based working capital limits**	Long-Term/Short-term	4400.0	-	[ICRA]AA-(CE) (Stable) /[ICRA]A1+(CE)	[ICRA]AA-(CE) (Stable) /[ICRA]A1+(CE)	[ICRA]AA-(CE) (Positive) /[ICRA]A1+(CE)	[ICRA]AA-(CE) (Positive) /[ICRA]A1+(CE)	[ICRA]AA-(CE) (Stable) /[ICRA]A1+(CE)	[ICRA]A+(CE) (Stable)/ [ICRA]A1 (CE)	[ICRA]A+(CE) (Stable)/ [ICRA]A1 (CE)
2	**Term loans**	Long-Term	1150.0	1150.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	-	-	-
3	**Fund based and non-fund based working capital limits**	Long-Term/Short-term	100.0	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-	-
4	**Fund based and non-fund based working capital limits**	Long-Term/Short-term	900.0	-	[ICRA]AA-(CE) (Stable) /[ICRA]A1+(CE)	-	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - Term loans	Simple
Long term/Short term fund based and non-Fund based	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 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	NA	NA	NA	4400.00	[ICRA]AA-(CE) (Stable)/ [ICRA]A1+(CE)
-	Term loans	FY2022	6.6%-7.1%	FY2028	1150.00	[ICRA]A (Stable)
-	Long term/Short term fund based and non-fund based	NA	NA	NA	100.00	ICRA]A (Stable)/ [ICRA] A1
-	Long term/Short term fund based and non-fund based	NA	NA	NA	900.00	[ICRA]AA-(CE) (Stable)/ [ICRA]A1+(CE)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Indorama Investments Limited	100%	Full Consolidation
Indorama Energy Pte. Ltd.	100%	Full Consolidation
Indorama Enterprises Pte. Ltd.	100%	Full Consolidation
Indorama Capital Holdings Pte. Ltd.	100%	Full Consolidation
Indorama Investment Advisors Pte. Ltd.	100%	Full Consolidation
Indorama Global AG	100%	Full Consolidation
Indorama Commerce DMCC	100%	Full Consolidation
Indorama Petrochemicals Holdings Pte. Ltd.	100%	Full Consolidation
Indorama Healthcare Pte. Ltd.	100%	Full Consolidation
Indorama Holdings B.V.	100%	Full Consolidation

Source: Company
Based on CY2022 audited financial statements

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About ICRA Limited:

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