August 23, 2024

Haldia Petrochemicals Limited: Ratings downgraded to [ICRA]A+ (Negative)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term limits- Term loans	2691.0	2691.0	[ICRA]A+ (Negative); downgraded from [ICRA]AA- (Negative)
Long-term limits - Fund-based	500.0	500.0	[ICRA]A+ (Negative); downgraded from [ICRA]AA- (Negative)
Short-term limits - Non-fund based limits	2500.0	2500.0	[ICRA]A1; downgraded from [ICRA]A1+
Long term – Non-fund based	3508.0	3508.0	[ICRA]A+ (Negative); downgraded from [ICRA]AA- (Negative)
Long-term/Short-term unallocated	4859.0	4859.0	[ICRA]A+ (Negative)/ICRA] A1; downgraded from [ICRA]AA- (Negative)/ [ICRA]A1+
Issuer rating	-	-	[ICRA]A+ (Negative); downgraded from [ICRA]AA- (Negative)
Short term – Commercial paper programme	100.0	100.0	[ICRA]A1; downgraded from [ICRA]A1+
Total	**14158.0**	**14158.0**	

**Instrument details are provided in Annexure-I*
Company has not placed any CP in recent times

Rationale

The downgrade in the ratings of Haldia Petrochemicals Limited (HPL) factors in the sustained pressure on its profit generation on the back of a global supply glut in the petrochemical market, which coupled with the muted global demand exerted pressure on the product spread. This has constrained HPL's tolling margins, and the trend is likely to continue for some more time, given the tepid global demand and the supply build-up. In FY2024, the company reported operating losses due to the material compression in spreads coupled with the increase in expenses to support research in some group companies.

ICRA expects FY2025 to be marginally better than FY2024, though it will continue to be weak. The moderation in profitability is likely to keep the debt metrics under pressure, especially in the light of the proposed debt-funded capex towards downstream products like acetone-phenol. On a consolidated basis, the company has sizeable debt repayments in the next fiscal for which it will have to be dependent on the available cash balances as well as support from other entities in the TCG Group.

The ratings consider the cyclicality inherent in the petrochemical business and the vulnerability of its profitability to the changes in import duty levels and the rupee-dollar movement. The downturn, in the current cycle, has remained elongated and the profitability has been under pressure, especially since the last fiscal, as tepid global demand and excess capacity weighed on end-product prices. While the demand in India continues to be healthy, cheaper imports from some geographies are exerting pressure on the tolling margins of petrochemical companies, including HPL (average tolling margin of ~$115/MT for HPL in FY2024 against ~$150/MT in FY2023). The tolling margins declined further in 3M FY2025 to $109/MT, thereby affecting the profitability. HPL's leverage (total debt/OPBDITA), on a consolidated basis, remained elevated in FY2024 and this is likely to continue in FY2025; however, the leverage is expected to improve steadily thereafter.

This decline in profitability amid elevated debt levels has also resulted in a breach of some of the financial covenants in the loan agreements. While as of now the lenders have taken a favorable view in this context, repeated failures to meet the covenants, and the inability of the company to get waivers from the lenders/investors, can negatively impact the ratings.

Moreover, ICRA notes that the company also faces prepayment risk, given the possibility of debt acceleration upon the breach of the rating-linked covenants in its NCDs.

In FY2021, HPL, in a joint venture with private equity firm Rhone Capital, acquired Lummus Technology LLC (Lummus), the technology division of McDermott International Inc (MDR). HPL acquired a 57% equity stake (as of now 57.9%) for ~$690 million which was partly funded through a foreign currency term loan (FCTL) of ~$512 million raised by HPL's wholly-owned subsidiary – HPL Technologies B.V. (HTS). Lummus generated revenues of $636 million with EBITDA of $172 million in CY2023. While the revenues dipped due to external factors, including the geo-political Russia-Ukraine conflict, which negatively impacted the business operations, the backlog remains healthy. Notwithstanding the credentials of MDR's technology division (operated through Lummus), the acquisition has significantly increased the long-term debt to be serviced by HPL even though the company hopes to realise substantial synergies over the medium to long term. ICRA has not consolidated the financials of Lummus Technology while arriving at the ratings of HPL and hence has not considered any incremental support to be provided by the latter to the former. Moreover, the debt on Lummus's books has no recourse to HPL. Nevertheless, the ability of Lummus Technology to service the $1.4-billion debt on its books remains a key monitorable and any support extended by HPL to Lummus for a shortfall in debt servicing will be a key rating sensitivity.

HPL has acquired a land parcel at Cuddalore, Tamil Nadu, under the liquidation process of Nagarjuna Oil Corporation Limited (NOCL), for ~Rs. 600-700 crore (including other incidental expenses). ICRA notes that HPL has been investing in subsidiaries and extending short-term loans and advances to Group companies, with the total exposure at ~Rs. 4,991 crore as of March 2024. Any further material increase in loans and advances to Group companies, including Lummus Technology, remains a key rating sensitivity. Moreover, the company is planning to undertake a phenol-acetone capex under one of its subsidiaries, which can keep the overall debt levels elevated in the medium term. The total cost of the overall capex is expected to be ~Rs. 4,800 crore, which is likely to be funded through debt and equity of 75:25. The project is expected to go live by the end of FY2026.

The ratings, however, continue to factor in HPL's demonstrated track record in the petrochemical business, its experienced management and its leading market position in eastern India for polymers. The other comforting factors are its locational advantage in servicing eastern India and Asian export demand and a favourable long-term outlook for polymer demand from several end-users in India, especially given the low per capita consumption vis-à-vis the global average. The ratings also factor in the comfortable liquidity position of the company, reflected in cash and investments of ~Rs. 3,132 crore as on March 31, 2024, including non-current investments in quoted non-convertible debentures, as well as the encumbrance for various banking facilities (including debt service reserve account) and the low working capital intensity of the business.

ICRA also notes that the company has received a favourable verdict at the arbitral tribunal on the incentives to be received from the West Bengal government, although it has been challenged by the state government. The receipt of the incentives will further improve the company's liquidity position, although the timeline and the amount remain to be seen.

ICRA has not factored in any other large long-term acquisition/investment by HPL. ICRA will review the ratings if the company was to embark on large debt-funded projects that impact its financial profile.

The Negative outlook reflects ICRA's opinion of continued pressure on the profitability and cash generation, going forward, amid the sizeable capex and debt servicing requirements.

Key rating drivers and their description

Credit strengths

Demonstrated track record in petrochemical business with established customers - The domestic polyolefins market has major participants, such as 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 region - HPL has 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 has logistical advantage in exporting to the East Asian market.

Favourable demand outlook for polyolefins demand in India - The domestic per capita consumption as well as the absolute consumption of commodity polymers is expected to show consistent growth due to various economic and demographic factors, such as increase in urban population and a rise in per capita income. Notwithstanding the ban on single-use plastics and the adverse impact of any future waves of the pandemic, ICRA expects the domestic consumption of commodity polymers to record a CAGR of 7-8% over the long term.

Value-added projects to improve returns from the business over long term - The company has regularly invested in setting up capacities for manufacturing value-added products to enhance its profitability. In the past, HPL had set up a butene1 (under its subsidiary) pygas de-sulphurisation plant. In addition to this, it has replaced its two naphtha and CBFS boilers with coal-based boilers. The company is also working on a strategic project to enhance its capacity utilisation by mitigating excess ethylene. This involves the conversion of surplus ethylene into propylene, which, in conjunction with the existing propylene and procured benzene, will be used to manufacture high-value products, namely phenol and acetone.

Credit challenges

Debt levels to remain elevated in the medium term; coverage indicators to moderate in the near term - The debt levels, on a consolidated basis, have remained elevated at around Rs. 8,374 crore as on March 31, 2024, and are expected to increase further in the medium term, with the planned debt-funded capex.

Moderation in profitability and deterioration of debt metrics – The company reported an OPBITDA loss of Rs. 20.1 crore in FY2024 compared to Rs. 553.1 crore of OPBDITA in FY2023 on a standalone basis. The profitability has remained under pressure, as tepid global demand and excess capacity addition weighed on end-product prices. While the demand in India continues to be healthy, cheaper imports from some geographies are exerting pressure on the tolling margins of petrochemical companies, including HPL. The average tolling margin for HPL remained at ~$115/MT in FY2024 against ~$150/MT in FY2023. The tolling margins declined further in 3M FY2025 to $109/MT, thereby creating pressure on the profitability. The high debt, coupled with the sustained pressure on OPBDITA generation, is likely to keep the debt metrics moderate in FY2025 as well, with elevated debt/OPBDITA and a weak DSCR. The scenario is likely to improve steadily, going forward.

Profitability vulnerable to inherent cyclicality in business, import duty levels and exchange fluctuations - The profitability remains vulnerable to the cyclicality inherent in the petrochemical business, import duty levels and foreign exchange fluctuations. Moreover, a downcycle in margins is likely in the near to medium term owing to supply overhang, ethylene over-capacity and tepid global demand. Accordingly, the tolling margins for all types of crackers are expected to face headwinds.

Operational risks from draft levels at Haldia port, through which HPL imports naphtha; sustainability of cost structure relies on ability to run the 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, while both the mother and daughter vessels with relatively low weight are unloaded at the Haldia port. However, with the draft level stabilising of late, the risk of a 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 company’s cost structure.

Liquidity position: Adequate

HPL’s liquidity is expected to remain adequate, evident from its cash and investments of more than Rs. 3,000 crore on a consolidated basis (including encumbrances and non-current investments) coupled with undrawn working capital facilities as on March 31, 2024. Though the cash flow from operations is expected to remain muted, the adequate liquidity coupled with some support from the TCG Group would be sufficient to cover the repayment liabilities over the near term. The company is also embarking on a large debt-funded capex, which will exert some pressure on the cash flows.

Rating sensitivities

Positive factors – The outlook on the long-term rating can be revised to Stable if the tolling margins and profitability improve, leading to an improvement in the debt metrics.

Negative factors – A sustained pressure on revenue and profitability and any material investments/funding support to Group companies (including Lummus Technology), or any large debt-funded capex/acquisition could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemicals 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, 2024, the company had subsidiaries as listed in Annexure II

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 the first tranche of shares by GoWB in December 2015, 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	FY2023	FY2024
Operating income	15,931	14,400
PAT	-711	-1,017
OPBDIT/OI	5.8%	2.3%
PAT/OI	-4.5%	-7.1%
Total outside liabilities/Tangible net worth (times)	0.81	0.92
Total debt/OPBDIT (times)	8.66	25.32
Interest coverage (times)	1.75	0.44

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs Crore)**	**Aug 23, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loans	Long term	2691.0	[ICRA]A+ (Negative)	21-Feb-24	[ICRA]AA- (Negative)	30-Sep-22	[ICRA]AA- (Stable)	27-Sep-21	[ICRA]AA- (Stable)
				22-Sep-23	[ICRA]AA- (Stable)				
Fund-based	Long term	500.0	[ICRA]A+ (Negative)	21-Feb-24	[ICRA]AA- (Negative)	30-Sep-22	[ICRA]AA- (Stable)	27-Sep-21	[ICRA]AA- (Stable)
				22-Sep-23	[ICRA]AA- (Stable)				
Non-fund-based limits	Short term	2500.0	[ICRA]A1	21-Feb-24	[ICRA]A1+	30-Sep-22	[ICRA]A1+	27-Sep-21	[ICRA]A1+
				22-Sep-23	[ICRA]A1+				
Non-fund based	Long term	3508.0	[ICRA]A+ (Negative)	21-Feb-24	[ICRA]AA- (Negative)	30-Sep-22	[ICRA]AA- (Stable)	27-Sep-21	[ICRA]AA- (Stable)
				22-Sep-23	[ICRA]AA- (Stable)				
Unallocated	Long term/ Short term	4859.0	[ICRA]A+ (Negative)/ [ICRA]A1	21-Feb-24	[ICRA]AA- (Negative)/ [ICRA]A1+	30-Sep-22	[ICRA]AA- (Stable)/ [ICRA]A1+	27-Sep-21	[ICRA]AA- (Stable)/ [ICRA]A1+
				22-Sep-23	[ICRA]AA- (Stable)/ [ICRA]A1+				
Issuer rating	Long term	-	[ICRA]A+ (Negative)	21-Feb-24	[ICRA]AA- (Negative)	30-Sep-22	[ICRA]AA- (Stable)	27-Sep-21	[ICRA]AA- (Stable)
				22-Sep-23	[ICRA]AA- (Stable)				
Commercial paper programme	short term	100.0	[ICRA]A1	21-Feb-24	[ICRA]A1+	30-Sep-22	[ICRA]A1+	27-Sep-21	[ICRA]A1+
				22-Sep-23	[ICRA]A1+				
Proposed NCD programme	Long term	-	-	21-Feb-24	-	30-Sep-22	-	27-Sep-21	-
				22-Sep-23	-				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term limits - Term loans	Simple
Long-term limits - Fund-based	Simple
Short-term limits - Non-fund based limits	Very Simple
Long term non-fund based	Very Simple
Long-term/Short-term unallocated	Not Applicable
Issuer rating	Not Applicable
Short term – Commercial paper programme	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	Term loans	January 2015	2.5 -7.5%	March 2030	2691.0	[ICRA]A+ (Negative)
NA	Fund-based	-	-	-	500.0	[ICRA]A+ (Negative)
NA	Non-fund based limits	-	-	-	2500.0	[ICRA]A1
NA	Non-fund based	-	-	-	3508.0	[ICRA]A+ (Negative)
NA	Unallocated	-	-	-	4859.0	[ICRA]A+ (Negative)/ [ICRA]A1
NA	Issuer rating	-	-	-	-	[ICRA]A+ (Negative)
NA	Commercial paper programme*	-	-	7-90 Days	100.0	[ICRA]A1

Source: Company

** - Not placed as of now*

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

Annexure II: List of entities considered for consolidated analysis

Company Name	HPL Ownership	Consolidation Approach
Haldia Riverside Estates Limited	100%	Full Consolidation
HPL Global Pte Limited	100%	Full Consolidation
Advance Performance Materials Private Limited	100%	Full Consolidation
HPL GO Private Limited	100%	Full Consolidation
HPL Technologies B.V. Netherlands	100%	Full Consolidation
SIO2P Private Limited	100%	Full Consolidation
HPL Industrial Parks Limited	100%	Full Consolidation
HPL Industrial Estates Limited	100%	Full Consolidation

Source: HPL financials FY2024
Note: For arriving at the ratings, ICRA has considered the consolidated financials of HPL.

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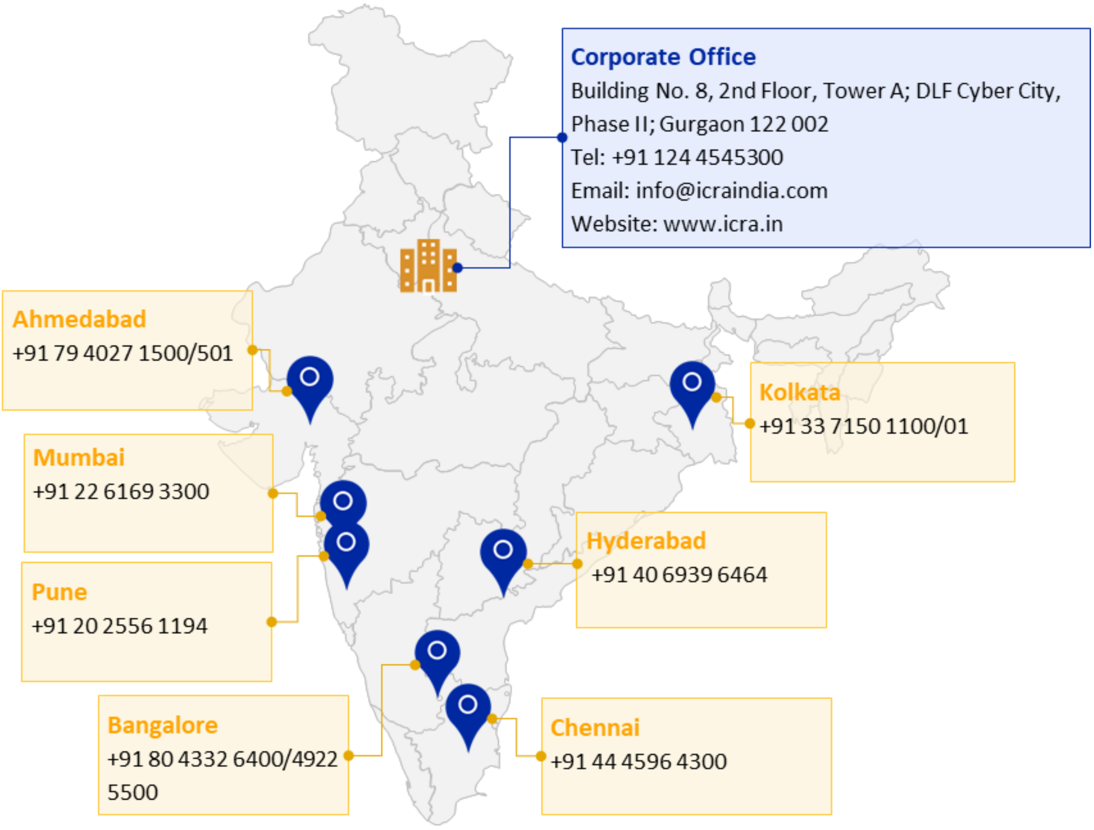

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