

June 20, 2019

IRC Agrochemicals Private Limited: Rating reaffirmed; rated amount enhanced

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	975.00	2000.00	[ICRA]A+(SO) (Stable)/[ICRA]A1(SO); reaffirmed
Long Term/Short Term-Fund based and Non-Fund based	150.00	150.00	[ICRA]A+(SO) (Stable)/[ICRA]A1(SO) confirmed as final
Short Term Non- Fund based*	230.00	-	-
Total	1355.00	2150.00	

*Instrument details are provided in Annexure-1

Rationale

IRC Agrochemicals Private Limited (IAPL) is a wholly owned indirect subsidiary of Indorama Corporation Pte. Ltd., Singapore (IRC). The ratings are principally based on an unconditional and irrevocable corporate guarantee from IRC and an undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date. While assigning the rating ICRA has taken consolidated view of IRC and its subsidiaries owing to strong operational and financial linkages between entities. The rated bank lines including the enhanced limits are used to fund working capital requirements of IAPL.

The ratings reaffirmation takes into account the long and established track record of IRC in the petrochemical industry and recent diversification into the fertiliser sector. The ratings also factor in IRC's diversified product portfolio, availability of low cost natural gas for Nigerian operations along with dedicated pipelines for gas and dedicated jetty for exports and healthy financial risk profile of the entity characterised by large scale of operations, healthy operating profitability, robust cash accruals and large cash and liquid investments. The ratings also factor in the healthy financial performance during CY2018 as the company has achieved revenues of US\$ 2,904 million and operating profit of US\$ 928 million. The ratings also factors in the healthy credit profile of IRC characterised by gearing (Total Debt/Tangible Net Worth) of 0.5 times, Total Debt/OPBDITA of 2.3 times and interest coverage of 8.5 times at the end of CY2018.

The ratings however are constrained by exposure of company's operations to foreign exchange volatility, concentration of major operations in Nigeria and the inherent cyclicity in the global petrochemical and fertiliser industry. The foreign exchange is mitigated to a large extent as majority of the company's revenue is denominated in US dollars while the company hedges the non-US dollar exposure. Company's cash generating operations are concentrated in Nigeria which exposes the company to geographical concentration risk as any adverse change in the economic and/or political regime may impact company's operations. The ratings also factor in the large brownfield expansion being undertaken to set-up a 1.4 MMTPA urea capacity (which will double up the existing capacity) at the Nigeria facility for a total cost of US \$1.1 billion which exposes the company to the risks inherent in execution of large scale projects. However, company's track record in executing large scale projects and involvement of various Development Financial Institutions (DFIs) in funding of the project partly mitigates the project related risks. Additionally, the Project uses the same technology (including KBR's proprietary Purifier Ammonia Process and Global Toyo's ACES 21 & Spout Bed Fluidizing Technologies for Urea Synthesis & Granulation), contractors, engineering, and equipment as the existing Line I fertilizer plant in Nigeria thereby minimizing project execution risks.

Outlook: Stable

ICRA believes the credit profile of the guarantor i.e. Indorama Corporation Pte Ltd (IRC) will remain stable in the near to medium term as it continues to generate healthy profits and cash accruals from its operations resulting in healthy net worth vis-a-vis debt being availed.

Key rating drivers for IAPL

Guarantee from Indorama Corporation Pte Ltd.– The rated facilities are backed by an unconditional and irrevocable guarantee from IRC which covers all amounts due under the facilities.

Sensitivity to guarantor's rating – The ratings primarily reflect the credit strength of the guarantor. Hence, any adverse movement in the rating view of the guarantor may result in rating action on the company's facilities.

Key rating drivers of the guarantor

Credit strengths

Long and established track record of Indorama Corporation Pte. Ltd. (IRC) in the petrochemicals space: IRC is one of the largest petrochemical player 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. Indorama group was established in 1975 with the establishment of PT. Indo-Rama Synthetics Tbk (an indirect subsidiary of IRC) by Mr. M L Lohia and his son Mr. S P Lohia who established IRC thereafter. Mr. S P Lohia has been working in the petrochemical industry for nearly four decades and has led the expansion of the business significantly over the years.

Diversified product portfolio: IRC along with its associate company Indorama Ventures Plc, Thailand (IVL) (IRC has ~32% effective stake in IVL) has more than 119 manufacturing facilities located in 35 countries and supplies various products to nearly 100 countries across the globe. The company has also diversified into the fertiliser sector with acquisition of a controlling stake in Industries Du Chimiques Senegal (ICS), setting up of 1.4 MMTPA urea plant in Nigeria and acquisition of DAP/NPK fertiliser plant of Tata Chemicals in India. The Nigerian urea plant commenced operations in October 2016 and is generating healthy cash accruals for the group. The diversification into the fertiliser sector will enable the company to mitigate risks associated with the petrochemical sector.

Long term contract for natural gas feedstock at low price for Nigerian operations whereas realisations for urea and poly-olefins are linked to Import Parity Pricing (IPP) leading to high margins: The Nigeria operations include a 440KTA poly-olefin plant (under company named Indorama Eleme Petrochemicals Limited, IEPL) and a 1.4 MMTPA urea plant (under company named Indorama Eleme Fertilizers & Chemicals Limited, IEFCL) located at Port Harcourt which generate significant amount of cash for IRC. The petrochemical plant has been operating since 2006 and has been paying large dividends to the group. The fertiliser plant commenced operations in October 2016 and has been generating healthy cash accruals since then. These plants are highly profitable owing to supply of the major feedstock i.e. natural gas is available at very low cost under long term supply contracts (nearly 15-20 years) due to the domestic gas supply policy of Nigeria while the realisation for end products are based on international parity. As a result, these operations generate operating margins in excess of 50%. Nigerian operations also include a dedicated jetty at Onne port from where the part of urea produced is exported to other countries in West Africa and to Latin America.

Healthy financial risk profile characterised by large scale coupled with robust operating profits, healthy cash accruals, large cash and liquid investments: The financial risk profile of IRC is healthy owing to large scale of operations coupled with robust operating profitability, healthy cash generation by various subsidiaries and large cash and liquid investments. During the CY2018 the company posted revenues of US\$ 2,904 million with an operating profit of US\$ 928 million whereas in CY2017, IRC posted revenue of US \$ 2,246 million with an operating profit of US\$ 707 million. As at CY2018 end, the company 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) which provides significant liquidity to the company. Despite undertaking a large capex for setting up urea plant 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.

Credit challenges

Major cash generating operations concentrated in Nigeria; however, operations have remained unaffected despite several regime changes in more than a decade of presence of the company in the country: IRC's major cash generating operations i.e. IEPL and IEFCL are located in Nigeria. However, IRC has been operating through IEPL in the country for more than a decade now and the operations have remained largely unaffected despite several regime changes as the company has been able to align the interest of the Nigeria state administration and the communities with the company through ownership in the plant which pays out healthy dividends each year. The acquisition & turnaround of the petrochemical plant and the commissioning of the fertiliser plant also has had a multiplier effect on the Nigerian economy through direct and indirect generation of employment and development of industries.

Cyclicality inherent in the petrochemicals and fertiliser business: The profitability of IRC remains exposed to the cyclicality inherent in the petrochemical business as the significant portion of the profitability is derived from the petrochemical business. The realisations for the urea may also come under pressure as capacity additions globally are expected to exceed demand growth in the near term. However, the Company's proximity to the Latin America and African markets will mitigate these risks to a great extent.

Project execution risk for the urea capacity expansion project at the Nigerian plant: IRC is undertaking brownfield expansion of urea capacity by 1.4 MMTPA in IEFCL, Nigeria. The project entails investment of US \$1.1 billion and is being majorly funded through debt. The project being large in size will remain exposed to project execution risks. However, company's track record in executing large scale projects and involvement of various DFIs in funding of the project partly mitigates the project related risks. Additionally, the Project uses the same technology (including KBR's proprietary Purifier Ammonia Process and Global Toyo's ACES 21 & Spout Bed Fluidizing Technologies for Urea Synthesis & Granulation), contractors, engineering, and equipment as the existing Line I fertilizer plant in Nigeria thereby minimizing project execution risks. With other large capacities coming up in Nigeria as well, the capacity utilisation post commissioning of the project may witness some pressure, though the low cost of production will keep the urea production cost competitive for exports to global markets.

Agro-climatic risks for fertiliser business in Nigeria; partially mitigated by the ability of company to export fertiliser: IEFCL sells nearly 40% of its urea produced in Nigeria while remaining 60% is exported mainly to other West African Nations and Latin American countries. The domestic sales remain exposed to the agro-climatic risks as Nigeria lacks wide spread irrigation facilities.

Foreign exchange risk owing to global operations partly mitigated by the group's policy to hedge any exposure which is not in US dollars; additionally, realisations are linked to IPP: IRC's operations are spread across various geographies leading to exposure to various currencies. The risk is partially mitigated by the group's policy to hedge any exposure which is not dollarized. Additionally, most of the realisations are based on import parity which protects the company's realisations in dollar terms.

Liquidity Position:

The liquidity position of IRC is healthy owing to large scale of operations coupled with robust operating profitability, healthy cash generation by various subsidiaries and large cash and liquid investments. As at CY2018 end, the company 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) which provides significant liquidity to the company. Despite undertaking a large capex for setting up urea plant 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.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent Company: Indorama Corporation Pte Ltd The assigned ratings are based on unconditional, irrevocable corporate guarantee extended by IRC Agrochemicals Private Limited's ultimate parent company – Indorama Corporation Pte Ltd.
Consolidation / Standalone	For arriving at the ratings, 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

IAPL 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 has been acquired on a slump sale basis. The effective date of acquisition was June 1, 2018 and since then the plant has achieved turnover of about Rs 3630 crore and PBT of Rs 108 Crore in FY2019 based on its provisional results.

About the guarantor

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 ably 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.

Key financial indicators of the guarantor (audited)

	CY2017	CY2018
Operating Income (USD million)	2,246	2,904
PAT* (USD million)	466	608
OPBDIT*/OI (%)	31%	32%
RoCE* (%)	11.9%	13.3%
Total Debt/TNW (times)	0.6	0.5
Total Debt/OPBDIT (times)	2.9	2.3
Interest coverage (times)	7.3	8.5

Source: 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 last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating June, 2019	Date & Rating in FY2019				Date & Rating in FY2018	Date & Rating in FY2017
					December, 2018	December, 2018	September, 2018	May, 2018		
Working capital limits	Short Term Non-Fund Based	0.00	-	-	[ICRA]A1(SO) (Rs 230.00 crore)	-	-	-	-	-
Working Capital Limits	Long Term/Short Term-Fund based and Non-Fund based	150.00	-	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 150.00 crore)	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)	-	-
				[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO) (Rs 2000.00 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)	-	-

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
-	Long Term/Short Term-Fund based and Non-Fund based	-	-	-	2150.00	[ICRA]A+(SO) (Stable)/ [ICRA]A1(SO)

Source: IRC Agrochemicals 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

ANALYST CONTACTS

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Mohit Lohia

+91 124 4545 814

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:

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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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

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

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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