April 13, 2020

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 has been 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. 21,000 crore. The capital outlay will be funded in a debt-equity ratio of 75%-25%. The Gorakhpur project is expected to be commissioned by the end of FY2021 while Sindri and Barauni projects are expected to be commissioned by end of Q1 FY2022. 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. 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 company has placed orders for all the products and services required for the projects. The ratings also factor in the healthy progress in the connectivity of the plants with natural gas pipeline. The Gorakhpur and Barauni plants have achieved gas pipeline connectivity while Sindri project is expected to achieve connectivity in Q2 FY2021. ICRA takes note of the minor slippages in meeting the planned progress for all the three projects in FY2020 owing to incessant rainfalls during the monsoons in FY2020. However, as per the catchup plans of the company, the progress will be accelerated to meet the slippages and the projects are expected to be completed on time. Nevertheless, any extended lockdowns due to COVID-19 may results in further slippages and would remain a key monitorable.

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 and fixed tenure basis; gas availability risk if the gas transmission pipeline projects being executed by GAIL are delayed beyond the scheduled timelines; 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 1, 2018. The date of commissioning is 36 months from the zero date. 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 to track the progress of projects and report any deviations or issues which could hamper the timely completion of the projects.

The outlook on the rating is Stable as ICRA expects the project execution to take place in a timely manner given the strong track record of the promoters in executing large size projects successfully over the years and the experience of the LSTK contractors in executing similar projects in a timely manner in India in the past.

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 company will also benefit from strong governance structure proposed, wherein senior level Directors from the sponsors will be forming part of Board of Directors and the post of Chairman of HURL will be rotating between the three main sponsors every three years. Currently, Mr Sanjiv Singh, Chairman of IOC, is the Chairman of HURL and Mr. A K Gupta, the Managing Director of the company was earlier working with NTPC. The sponsors have also undertaken to provide cost over-run support as part of project financing.

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%-25% 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: Domestic urea consumption has grown at a CAGR of 2.2% from 2010 to 2020 and is expected grow at a steady rate of 1-2% going forward. 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.

Debt sanction for all projects achieved: HURL completed debt tie-ups and award of execution contracts for all three projects in CY2018. The debt was sanctioned, and the debt draw down is in progress for all the three projects. With debt tie-ups in place, the funding requirements for the projects will be comfortably met.

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 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.

Feedstock availability risk associated with setting up of gas pipeline in a timely manner: The projects are exposed to feedstock availability risk as the natural gas for production of urea will be supplied from the under construction Phulpur-Dhamra-Haldia (PDH) pipeline also known as Urja Ganga. The pipeline is being set-up by GAIL (India) Limited (GAIL, rated [ICRA]AAA(Stable)/[ICRA]A1+) with a total capital outlay of ~Rs. 13,000 crore. Gorakhpur and Barauni plants have achieved gas pipeline connectivity while connectivity for Sindri project is expected to be achieved in Q2 FY2021. With pipeline connectivity expected to be achieved well before the scheduled commissioning dates and signing of the Gas Supply & transmission Agreement (GSTA) with GAIL, the feedstock availability risk is largely mitigated for the company.

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.

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 project 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 trigger- The rating may be upgraded on successful commissioning and stabilisation of the three urea greenfield projects without material cost and time over runs.

Negative trigger- Significant delay in project execution and /or material cost overrun resulting in weakening of debt metrics for the projects.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector
Parent	Parent/Group Company: Indian Oil Corporation Limited (IOC), Coal India Limited (CIL) and NTPC Limited (NTPC) The ratings take into account the strength of the promoters and the Sponsor Support Undertaking (SSU) signed with the lenders to fund cost over runs through infusion of equity.
Standalone	The ratings are based on the Standalone financials of the company

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):

	FY2018	FY2019
Operating Income (Rs. crore)	0.00	0.00
PAT (Rs. crore)	1.15	13.41
OPBDIT/OI (%)	NM	NM
RoCE (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	NM	NM
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM
DSCR	NM	NM

Source: ICRA estimates; 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); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					13-Apr-2020	12-Apr-2019	-	21-Mar-2018
1	Term Loan	Long term	15,829.53	4119.40	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
2	Non fund based LC/BG	Long Term	14,920	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
3	Proposed Term loan	Long term	15,829.53	-	-	-	-	[ICRA]A (Stable)

Amount in Rs. 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
-	Term Loans	March 2018	1-year MCLR+50 bps	March 2033	15,829.53	[ICRA]A (Stable)
-	Non-fund based limits	-	-	-	(14,920.00)	[ICRA]A (Stable)

Source: IOC

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

ANALYST CONTACTS

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Varun Gogia
+91 124 4545 373
varun.gogia@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@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