

## Hindustan Urvarak & Rasayan Ltd.

April 12, 2019

### Summary of rated instruments

Instrument*	Previous Rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed Term Loan	15,829.53	0.00	-
Term loan	0.00	15,829.53	[ICRA]A(Stable) reaffirmed
Non-fund-based limits#	0.00	(14,920.00)	[ICRA]A(Stable) reaffirmed
<b>Total</b>	<b>15,829.53</b>	<b>15,829.53</b>	

\*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]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%. Gorakhpur project is expected to be commissioned by the end of FY2021 while Sindri and Barauni are expected to be commissioned by end of Q1 FY2022. Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) also hold 7.335 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 on-schedule project progress so far and the Sponsor Support Undertaking (SSU) provided by the promoters to the lenders wherein the former has 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 resulting in savings on account of lower interest outgo. The company has also placed orders for 90-95% of products and services required for the projects which should lead to timely receipt of the equipment on site.

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 being 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 is June 1, 2018. The projects will be commissioned in 36 months from the zero date. The LSTK contractor for Gorakhpur is Toyo Engineering with the technology licensors M/s KBR Inc. USA (for Ammonia) and Toyo Engineering, Japan (for Urea). The contract execution for Sindri and Barauni is being undertaken by a consortium of TechnipFMC, Technip India and L&T Hydrocarbon with project licensors Haldor-Topsoe, Denmark (for ammonia) and Saipem, Italy (for Urea). HURL has contracted the services of Projects & Development India Limited (PDIL) as project management consultants to track the progress of projects and report any deviations or issues which could hamper the timely completion of the projects.

## Outlook: Stable

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 as well.

The rating outlook may be changed to Positive if there is faster than expected project execution and/or material cost savings in project execution and /or favourable regulatory developments.

The rating outlook may be revised to Negative in case of material time and/or cost over runs. Any pullback in support from the promoters may also trigger a revision in the outlook to Negative.

## Key rating drivers

### 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 Gol aims to reduce import dependence for urea:** Revival of defunct urea plants holds strategic importance for Gol 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 the urea imports. Gol also sanctioned an interest free loan of Rs. 1,258 crore for HURL to meet the IDC expense resulting in cost saving for the company along with a ballooning repayment structure.

**Favourable demand-supply scenario of urea in India:** Domestic urea consumption has grown at a CAGR of 2% from 2009 to 2019 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 significantly lower retail price of urea. 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 funding has been sanctioned for the projects wherein Gorakhpur project has started debt drawdown as well while debt drawdown by Sindri and Barauni is expected to begin in Q1 FY2020.

**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. 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 Gol to

continue the prevalent practice of first off-taking entire domestic production before resorting to import should partly mitigate the concerned 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 contract:** HURL is exposed to project implementation risk owing to large size of the projects. The projects are being executed on a LSTK basis 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 (rated [ICRA]AAA(Stable)) with a total capital outlay of ~Rs. 13,000 crore. The section of pipeline which will supply gas to Gorakhpur is expected to be completed in next few months while for Sindri the connectivity is scheduled to be completed by December 2019. Pipeline connectivity to Barauni has already been achieved. While the scheduled dates of completion for the pipeline are well before the date of commissioning of the projects i.e. March 2021, any delay in completion of these pipelines will expose the projects to feedstock availability risks.

**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 Govt 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 the key 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:

HURL's liquidity position remains comfortable 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 on the liquidity front for the company.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Fertiliser sector</a>
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 remaining 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 for urea.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	0.00	0.00
PAT (Rs. crore)	-4.80	1.15
OPBDIT/OI (%)	NM	NM
RoCE (%)	NM	NM
Total Debt/TNW (times)	NM	NM
Total Debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

NM: Not Meaningful; 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 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	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				April 2019	-	March 2018	-
Proposed Term Loan	Long Term	-	-	-	-	[ICRA]A (Stable)	-
Term loan	Long term	15,829.53	66.00	[ICRA]A (Stable)	-	-	-
Non-fund based <sup>#</sup>	Long Term	14,920.00	-	[ICRA]A (Stable)	-	-	-

<sup>#</sup> 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 [www.icra.in](http://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
-	Proposed Term loan	-	-	-	-	-
-	Term loan	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)

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

### Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit [www.icra.in](http://www.icra.in)

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