

Press Release

Brahmaputra Cracker And Polymer Limited

D-U-N-S® Number: 67-738-7624

December 13, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.2603.20 Cr.
Long Term Rating	ACUITE AA / Outlook: Stable
Short Term Rating	ACUITE A1+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) and short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.2603.20 crore bank facilities of BRAHMAPUTRA CRACKER AND POLYMER LIMITED. The outlook is '**Stable**'.

Assam based Brahmaputra Cracker and Polymer Limited (BCPL) was incorporated in 2007 as a joint venture between GAIL (India) Limited (GAIL), Oil India Limited (OIL), Numaligarh Refinery Limited (NRL) and Government of Assam (GoA) with GAIL holding majority stake of 70.74 percent.

BCPL is engaged in manufacturing of High Density Polyethylene (HDPE) and Linear Low Density Polyethylene (LLDPE) with the capacity of 220,000 Tonnes per Annum (TPA) and Poly-Propylene (PP) with the capacity of 60,000 TPA. The other products include Hydrogenated Pyrolysis Gasoline and Pyrolysis Fuel Oil. BCPL has its work stations located at Duliajan, Lakwa and Lepetkata in Assam.

Analytical Approach

To arrive at rating, Acuite has considered the standalone business and financial risk profile of BCPL and notched up the standalone rating by factoring in the strong operational and financial support extended by GAIL.

Name of the entity(s) offering support	Nature of Support (Parent / Group / Government)	Rationale for expectation of support
GAIL (India) Limited	Parent	<ul style="list-style-type: none"> Shareholding of 70.74 percent Common board member representation Corporate guarantee for certain borrowings of BCPL Strong operational and financial support

Key Rating Drivers

Strengths

• Strong operational and financial support from GAIL

BCPL is a joint venture between GAIL, OIL, NRL and GoA with GAIL holding 70.74 percent, OIL and NRL each holding 10.11 percent respectively and GoA holding 9.04 percent (as on 31 March 2018). BCPL is engaged in manufacturing of high Density Polyethylene (HDPE), Linear Low Density Polyethylene (LLDPE) and Poly-Propylene (PP). As per the arrangement with various shareholders, BCPL will get the raw material from OIL and NRL, the land from GoA and all the technical and operational support from GAIL.

GAIL, the single largest shareholder with 70.74 percent stake in BCPL was incorporated in August 1984 as a central public sector undertaking (PSU) under the Ministry of Petroleum and Natural Gas (MoPNG). GAIL's major line of activities include Natural gas transmission, gas marketing, LNG, liquid hydrocarbons, Petrochemicals, LPG production and transmission, City gas distribution, Exploration and production among others. GAIL was conferred with the Maharatna status on 01 February 2013, by the Government of India. GAIL, on a consolidated basis registered revenues of Rs.546.94 billion for FY2018.

Besides its investment in BCPL, GAIL has its own petrochemical plant at Pata, Madhya Pradesh which was commissioned in 1999. In 2015, GAIL doubled its production capacity which currently is at 8,10,000 TPA. On a standalone basis, the petrochemical segment contributes to 10.58 percent of GAIL's total revenues for FY2018.

BCPL is a part of the petrochemical initiatives of GAIL. BCPL has signed the marketing agreement with GAIL by which all the production of BCPL will be sold by using GAIL's marketing channels. All the products of BCPL are sold as 'Manufactured by BCPL Marketed by GAIL'. The senior management of BCPL comprises employees from GAIL which provides strong operational support. The board of directors of BCPL comprises of representatives from GAIL, OIL and NRL. Apart from the operational support, GAIL has extended corporate guarantee for certain borrowings of BCPL. The association with GAIL has enabled BCPL to raise funds at competitive pricing from the financial institutions.

BCPL procures the raw materials i.e. gas from ONGC and OIL and naphtha mainly from NRL. BCPL has signed the feedstock agreement by which the pricing is governed by the Government of India. This has benefited BCPL to procure the raw materials at discounted prices compared to market rates.

Acuite believes that BCPL's credit profile will continue to be supported by its association with the GAIL. The ownership pattern of BCPL, support from GAIL and credit rating of GAIL will remain key rating sensitivities.

- **Expected growth in the petrochemical sector**

The petrochemical segment in India is witnessing increased demand year on year. The major end user industries for this segment includes packaging, automobile, construction, electrical & electronics, aviation, consumer goods among others.

India automobile and packaging industry have growing at a rapid pace. Moreover, the Indian government has been emphasizing on growth in the infrastructure and rural development providing strong demand prospectus for the petrochemical industry.

Asia Pacific market is a major processing hub for petrochemicals with India, China, and South Korea being major drivers. Six of the world's ten largest refineries are in Asia Pacific with the largest being Reliance Industries Limited.

There are new technologies introduced in the production side such as usage of dual feed crackers which gives the flexibility to switch between the feed stocks. This has allowed the players to mitigate the fluctuations of petroleum prices to an extent.

Acuite believes the petrochemical segment to sustain the growth in medium term on account of healthy offtake from end-use segments and established players like BCPL to benefit from this growth.

Weaknesses

- **Exposure to cyclicality in the petrochemical industry**

The polymer prices are linked to prices of crude. Since crude prices exhibit high volatility depending on the actions of the major crude players like OPEC, the prices of polymers also move in tandem. The Brent crude prices have moved from USD 27 in January 2016 to USD 86 in October 2018.

The domestic demand for polymers is met through domestic suppliers like Reliance Industries Limited (RIL), GAIL, Haldia & also through imports. India is a net importer of petrochemical products hence the domestic prices are generally aligned to the landed cost of imports. Any further buildup in the global capacities can have an influence on the domestic prices thereby adding to the competitive landscape. The demand for polymers is linked to general industrial activity and any slowdown in domestic output will have moderating impact on the demand for polymers.

Acuite expects that the revenues and margins of BCPL will remain exposed to fluctuations petrochemical prices, competitive landscape and demand for polymers depending on level of volatility in the feed stock prices and imports.

Outlook: Stable

Acuite believes that BCPL will maintain a 'Stable' outlook over the medium term on account of its strong linkages with, and support from, the GAIL. The outlook may be revised to 'Positive' in case the company exhibits healthy growth in cash accruals while managing its working capital requirements efficiently. Conversely, the outlook may be revised to 'Negative' in case of any dilution of support from the GAIL, thereby impacting the debt servicing ability or any further deterioration in the financial risk profile and liquidity position of the company.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)*
Operating Income	Rs. Cr.	1,758.78	675.63	NA
EBITDA	Rs. Cr.	359.27	(147.15)	NA
PAT	Rs. Cr.	(80.39)	(547.41)	NA
EBITDA Margin	(%)	20.43	(21.78)	NA
PAT Margin	(%)	(4.57)	(81.02)	NA
ROCE	(%)	1.82	(3.71)	NA
Total Debt/Tangible Net Worth	Times	0.74	0.71	NA
PBDIT/Interest	Times	1.92	0.14	NA
Total Debt/PBDIT	Times	6.44	80.38	NA
Gross Current Assets (Days)	Days	226	536	NA

*The company had commenced its operations in FY2017

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-24.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	272.00	ACUITE AA/Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1699.00	ACUITE AA/Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	304.20	ACUITE AA/Stable
Short Term loan	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A1+
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	78.00	ACUITE AA/Stable

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuите.in</p> <p>Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294022 avadhoot.mane@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuите.in</p>

About Acuite Ratings & Research:

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