

## Press Release

### Brahmaputra Cracker and Polymer Limited

March 04, 2020

#### Rating Upgraded Reaffirmed and Withdrawn



<b>Total Bank Facilities Rated*</b>	Rs.2603.20 Cr.
<b>Long Term Rating</b>	ACUITE AA+ (CE)/ Outlook: Stable (Upgraded from ACUITE AA/ Stable)
<b>Short Term Rating</b>	ACUITE A1+ (CE) (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuite has upgraded its long term rating to '**ACUITE AA+ (CE)**' (read as **ACUITE double A plus (Credit Enhancement)**) from '**ACUITE AA (CE)**' (read as **ACUITE double A (Credit Enhancement)**) and reaffirmed the short term rating of '**ACUITE A1+ (CE)**' (read as **ACUITE A one plus (Credit Enhancement)**) on the Rs.2,603.20 Cr. bank facilities of Brahmaputra Cracker and Polymer Limited (BCPL). The outlook is '**Stable**'.

The upgrade is in view of substantial and sustained growth in its revenues and profitability along with improvement in its financial risk profile. BCPL registered revenues of Rs.2,911.02 Cr in FY2019 as against 1,931.66 Cr in FY2018 on account of improvement in the capacity utilization. Further, in current year, the company has registered revenues of Rs.1870.85 crore (provisional) during the period April-December 2019. The rating continues to take comfort from BCPL's strong parentage in the form of GAIL (India) Limited (GAIL), Oil India Limited (OIL), Numaligarh Refinery Limited (NRL) and Government of Assam (GoA) and their strong operational and financial support. However, these strengths are partly offset by exposure to cyclicalities in the polymer prices, impacting the profitability of the company.

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 70.00 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 Duliaganj, 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	Shareholding of 70.00 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 70.00 percent, OIL, NRL and GoA each holding 10.00 percent respectively (as on 31 March 2019). 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 70.00 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 revenue of Rs.762.34 billion for FY2019.

Besides its investment in BCPL, GAIL has its own petrochemical plant at Pata, Uttar 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 8.86 percent of GAIL's total revenues for FY2019.

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.

#### **• Healthy financial risk profile**

BCPL has healthy financial risk profile marked by healthy net worth, gearing and moderate debt protection matrices.

BCPL's net worth is healthy estimated at around Rs.4748.53 crores as on 31 March 2019 as against Rs.4678.35 crore as on 31 March 2018. The company has followed a conservative financial policy in the past, the same is reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.74 and 0.96 times respectively as on 31 March 2018. The same has improved to 0.66 and 0.81 times respectively as on 31 March 2019. In FY2020, BCPL is expected to receive Feedstock revenue subsidy from government of Rs.930.49 crore, as a result, capital structure is expected to improve in FY2020. Acuite expects the gearing of the company to remain below 0.60 times over the medium term.

The revenues of the company increased to Rs.2911.02 crore in FY2019 as against 1931.66 crore in FY2018, while its operating margins were moderate/remained stable in the range of 22-27 per cent. The healthy profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) for FY 2019 were moderate at 2.50 percent and 1.54 times, respectively.

Acuite believes that the financial risk profile to remain healthy over the medium term mainly on account of receipt of feedstock subsidy from the government.

## Weaknesses

- **Exposure to cyclicity 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 50 in February 2020.

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.

The polymer prices have been on the declining trend since March 2019 both in domestic and international markets. International polymer prices have fallen to multi-year low on account of higher polymer supply and subdued demand growth. Polymer demand from China, the largest consumer of polymer globally, slowed down drastically in 2019 on the back of trade war with the US. While demand slowed down, polymer supply increased during the year, which drastically brought down polymer prices. This has resulted in decrease in the sales realisations of most polymer companies including BCPL.

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.

## Liquidity position: Adequate

BCPL has adequate liquidity position to service its debt obligations in a timely manner. BCPL generated cash accruals of Rs.456.02 crore in FY2019 against the debt obligations of around Rs.205 crore for that year. Further, the liquidity is also supported by its association with GAIL, strong financial flexibility of the promoters, and their commitment to support the group and BCPL in case of any financial distress.

## Rating Sensitivities

- Any dilution of support from GAIL

## Material Covenants

None

## 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 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	2,911.02	1,931.66
PAT	Rs. Cr.	69.37	(80.39)
PAT Margin	(%)	2.38	(4.16)
Total Debt/Tangible Net Worth	Times	0.66	0.74
PBDIT/Interest	Times	2.50	1.92

## 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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
13-Dec-18	Cash Credit	Long term	272.00	ACUITE AA/Stable (Assigned)
	Term Loan	Long term	1699.00	ACUITE AA/Stable (Assigned)
	Term Loan	Long term	304.20	ACUITE AA/Stable (Assigned)
	Short Term Loan	Short Term	250.00	ACUITE A1+ (Assigned)
	Proposed Bank Facility	Long term	78.00	ACUITE AA/Stable (Assigned)

### \*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	350.00 (Enhanced from Rs.272.00 Cr.)	ACUITE AA+ (CE) / Stable (Upgraded from ACUITE AA/Stable)
Term loans	25-Sep-2013	1 Yr MCLR + 0.20%	May-2025	1699.00	ACUITE AA+ (CE) / Stable (Upgraded from ACUITE AA/Stable)
Term loans	Not Available	Not Applicable	Not Available	304.20	ACUITE AA+ (CE) / Stable (Upgraded from ACUITE AA/Stable)
Short Term loan	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A1+ (CE) (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A1+ (CE) (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A1+ (CE) (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE AA+ (CE) / Stable (Upgraded from ACUITE AA/Stable)

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### About Acuite Ratings & Research:

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