

Press Release

Brahmaputra Cracker and Polymer Limited

September 03, 2021

Rating Reaffirmed, Outlook Revised



Total Bank Facilities Rated*	Rs. 2603.20 Cr.
Long Term Rating	ACUITE AA+/Positive (Reaffirmed and outlook revised from Stable)
Short Term Rating	ACUITE A1+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE AA+**' (read as **ACUITE double A plus**) and short term of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 2603.20 Cr bank facilities of Brahmaputra Cracker and Polymer Limited (BCPL). The outlook is revised to **Positive** from **Stable**.

The revision in outlook is driven by a substantial improvement in BCPL's financial risk profile driven by reduction in debt level as the company has prepaid a significant portion of external borrowing in Q1FY22. This prepayment is funded through large inflow of subsidies and grants from Central government and State government of Assam during over the last 2 years. The ratings also factor in the company's strong business profile as reflected from its established presence in polymer business along with healthy operational performance and strategic linkages with leading PSUs in the oil and gas sector. The company's manufacturing unit is continuously operating at optimum capacity during the last 2 years due to a favorable demand scenario for petrochemical products. However, these strengths are partly offset by exposure to cyclicalities in the polymer prices, which can potentially impact BCPL's profitability.

About the company

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 cracker complex located at Duliajan, Lakwa and Lepetkata in Assam.

Analytical Approach:

Acuite has taken a standalone view of the business and financial risk profile of BCPL to arrive at the rating. However, Acuite has taken into account the strong parentage of the entity by way of shareholding held by GAIL. The analytical approach has also been revised from a Credit Enhancement (CE) to a standalone rating with a notch up based on support from the key stakeholder.

Key Rating Drivers:

Strengths

Demonstrated support from GoI and State government of Assam

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. The company has strategic importance as it is formed under Assam Accord of 1985 to promote economic development in Assam. 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 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). BCPL has signed the marketing agreement with GAIL by which all the production of BCPL will be sold by using GAIL's marketing channels. The board of directors of BCPL comprises of representatives from all stakeholders. 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. BCPL is exempted from paying value added tax on purchase of Natural Gas for a period of 15 years (02 January 2016 to 01 January 2031) by State Government of Assam. The ownership pattern of BCPL, support from GAIL and credit rating of GAIL will remain key rating sensitivities.

Robust financial risk profile

The robust financial risk profile of the BCPL is marked by its very high net worth, comfortable gearing and strong debt protection metrics. The net worth stood at Rs. 2576.60 Cr. as on 31st March'2021 as compared to Rs 1828.08 Cr. in the previous year. The gearing of the company improved to 0.98 times as on 31st March 2021 as against 1.74 times as on 31st March, 2020. TOL/TNW stood at 3.07 times in FY21 as against 4.68 times in FY20. Debt level as on 31 March 2020 included long term borrowing of Rs. 2306.95 Cr and short term loan of Rs. 210.22 Cr. BCPL continued to report a strong interest coverage ratio of 6.96 times as on 31st March, 2021 as against 9.87 times as on 31st March, 2020. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.45 times in FY2021 as compared to 0.60 times in the previous year. Going forward, Acuite believes the financial risk profile to remain robust over the medium term backed by prepayment of term loan and low dependence on debt.

High entry barrier

Petrochemical business is highly capital intensive nature and currently, there are only six players in India who have operational cracker complex. BCPL was formed as per Assam Accord to promote economic development in the State of Assam, so the company continues to enjoy support from the Central government and GOA. This will create an entry barrier for a new entrant.

Healthy profit margin

The company has reported strong profit margins both at the operating and net level historically. The operating margin of the company further improved to 47.53 percent in FY21 as compared to 26.54 percent in FY20. The profit after tax (PAT) margins of the company stood at 21.56 percent in FY21 as against 51.22 percent in the preceding year. The profit margin depends on inflow of various subsidies and grants during the year. Acuite believes that the company would be able to maintain healthy profit margins over the medium term because of limited players present in the industry.

Weaknesses

Exposure to volatile crude oil and polymer prices

Polymer prices are linked with crude oil price fluctuations with a higher degree of volatility in the recent past. This will be further affected by the impact of the COVID-19 crisis with the petrochemical sector trying to navigate through uncertain and volatile times, facing plummeting oil prices and a crude oil price war. 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.

Rating Sensitivity

- Product diversification and capacity addition
- Deterioration in liquidity profile

Material Covenant

None

Liquidity Position: Superior

The company has strong liquidity profile as indicated from its healthy net cash accrual of Rs 1132.58 Cr as against current maturity of Rs 371.34 Cr. Going forward, the cash accruals are expected to be in the range of Rs. 1600-1800 Cr as compared to nominal or no loan repayments from FY2022-23. Moreover the company has working capital of Rs 350 Cr which remains unutilized mostly. However the company has high working capital requirement as GCA days stood at 181 days in FY21. Acuite expects the liquidity position of the company will remain strong over the medium term supported by its association with strong financial flexibility of the promoters and inflow subsidies & grant.

Outlook: Positive

Acuite believes that the credit profile of BCPL would benefit from the regular fund infusion in the form of subsidies and grants and a healthy revenue growth backed by improving operational performance. The rating may be upgraded if there is a sustainable growth in the scale of operations and continuity in the healthy

operating margins. Conversely, the outlook may be revised to 'Stable' in case of any dilution of support from GAIL or a weakness in the liquidity and financial profile because of any unplanned debt funded capex plan.

About the Rated Entity -

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	3432.23	2943.55
PAT	Rs. Cr.	739.90	1507.60
PAT Margin	(%)	21.56	51.22
Total Debt/Tangible Net Worth	Times	0.98	1.74
PBDIT/Interest	Times	6.96	9.87

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

NA

Any other information

None

Applicable Criteria

Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Manufacturing entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Group and Parent Support - <https://www.acuite.in/view-rating-criteria-47.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
04 March 2020	Cash Credit	Long term	350	ACUITE AA+ (CE) / Stable (Upgraded from ACUITE AA/Stable)
	Term loans	Long term	1699	ACUITE AA+ (CE) / Stable (Upgraded from ACUITE AA/Stable)
	Term loans	Long term	304.20	ACUITE AA+ (CE) / Stable (Upgraded from ACUITE AA/Stable)
	Short Term loan	Short Term	250	ACUITE A1+ (CE) (Withdrawn)
	Letter of Credit	Short Term	60	ACUITE A1+ (CE) (Reaffirmed)
	Bank Guarantee	Short Term	40	ACUITE A1+ (CE) (Reaffirmed)
	Proposed Bank facility	Long term	150	ACUITE AA+ (CE) / Stable (Upgraded from ACUITE AA/Stable)
13 December 2018	Cash Credit	Long term	272	ACUITE AA/Stable (Assigned)
	Term loans	Long term	1699	ACUITE AA/Stable (Assigned)
	Term loans	Long term	304.20	ACUITE AA/Stable (Assigned)
	Short Term loan	Short Term	250	ACUITE A1+ (Assigned)
	Proposed Bank facility	Long term	78	ACUITE AA/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	350.00	ACUITE AA+/Positive (Reaffirmed, Outlook revised) from Stable)
State Bank of India	Term Loan	June 2014	9.50	May 2024	383.59	ACUITE AA+/Positive (Reaffirmed, Outlook revised) from Stable)
State Bank of India	Term Loan	Not Available	Not Available	May 2024	304.20	ACUITE AA+/Positive (Reaffirmed, Outlook revised) from Stable)
Proposed	Bank Facility	Not Applicable	Not Applicable	Not Applicable	1465.41	ACUITE AA+/Positive (Reaffirmed, Outlook revised) from Stable)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A1+ (Reaffirmed)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A1+ (Reaffirmed)

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About Acuité Ratings & Research:

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