Press Release

Sun Petrochemicals Private Limited

March 31, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 200.00 Cr.
Long Term Rating	ACUITE A+/Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A+**' **(read as ACUITE A plus)** on the Rs. 200.00 Cr bank facilities of Sun Petrochemicals Private Limited (SPPL). The outlook is **'Stable'**.

The rating reflects healthy revenue visibility for SPPL on the back of discovery of oil at its largest oilfield (Bhaskar) with peak estimated oil production of 4500 barrels per day (bbls) and SPPL's strong parent Shanghavi Financial Private Limited (SFPL) with substantial liquid investment and net cash accruals. SPPL is a part of the Sun Pharma Group (SG) headed by Mr. Dilip Shanghvi. Mr. Shanghvi also holds directorship position in SPPL. The rating also derives comfort from the extensive experience of the senior management team in the oil exploration & production (E&P) segment. The above mentioned strengths are partly offset by project implementation risk, particularly the timely completion of the ongoing capex funded primarily by debt leading to scale up of SPPL's operations, which is likely to continue to remain a key rating sensitivity.

About the Company
SPPL is a Vadodara based company incorporated in 1995. It is a privately held company promoted by Directors of Sun Pharmaceutical Industries Limited (SPIL) - 4th Largest Global Specialty Generic Company. Initially, SPPL was into manufacturing of acetylene carbon black. From 2014, the company entered into upstream Oil & Gas business and has closed down its other segments. It signed various production sharing contracts with Government of India (GoI) to carry out development and production of Oil and Gas. The upstream operations of the Company started with the acquisition of participating interest in the oil fields located in and around Gujarat. It currently has rights to four oil fields – Modhera near Mehsana, Baola near Ahmedabad, Bhaskar near Vadodara and Hazira bear Surat.

About the Guarantor
Shanghavi Finance Private Limited (SFPL) is an investing company of the promoter family. It has been listed as promoter entity as per the disclosures on the stock exchange. SFPL held 40.30 per cent of the total shareholding of Sun Pharma Industries Limited (SPIL) as on December 2020. The rated bank facilities will be secured by corporate guarantee of SFPL.

Analytical Approach
Acuite has considered the standalone business and financial risk profile of SPPL while arriving at the rating. Acuite has also factored in the financial support SPPL is likely to receive from SFPL on account of the Corporate Guarantee extended by the later.

Key Rating Drivers

Strengths

- **Extensive experience of the management in the oil & exploration (E&P) segment**
  SPPL is a Vadodara based company incorporated in 1995. It is a privately held company promoted by Directors of Sun Pharmaceutical Industries Limited (SPIL) - 4th Largest Global Specialty Generic Company. Initially, SPPL was into manufacturing of acetylene carbon black. From 2014, the company entered into upstream Oil & Gas business and has closed down its other segments. Towards this end SPPL acquired management personnel with extensive experience in the oil E&P industry. SPPL's oil E&P operations are headed by Mr. Padam Singh – President, a post graduate in Chemical Engineering from IIT – Roorkee with over four decades of experience in ONGC, Reliance and GSPC. He is supported by second tier management with experience over three decades from companies

such as ONGC and Reliance.

Acuité believes that SPPL will derive benefits from its management with extensive experience in the oil E&P industry.

- **Strong financial flexibility and resource mobilization ability of the promoters**

SPPL is part of the SG's. It is SG's expansion into the oil E&P segment. SFPL - which is the holding company for the SPIL - holds ~67 percent in SPPL. SPPL's bank facilities have been secured by corporate guarantee from SFPL. SFPL holds 40.30 percent of SPIL as on December 31, 2020 amounting to Rs. 70,000 Cr. SFPL's net cash accruals stood at Rs. 516.03 Cr for FY2020 against cash loss of Rs. 73.44 Cr. The significant improvement in cash accruals is on account of increased dividend flow from SPIL. SPIL has been declaring dividend in a range of 100 per cent to 350 per cent over the past five years. SFPL's outstanding debt as on 31 March 2020 stood at Rs.865.91 Cr. SFPL's financial flexibility is derived from the value of its unencumbered shares in SPIL viz-a-viz its borrowings and other contingent exposures. However, SFPL's obligations to other Group entities in the Group will restrict the support available to some extent. Strength can be drawn from the fact that the SFPL's cash accruals in FY2020 are multiple 2.58 times SPPL's total bank facilities. SFPL has also infused significant unsecured loans in SPPL for supporting its operations. They stood at Rs. 100.50 Cr as on March 31, 2020.

Acuité believes that SFPL will continue to generate a robust cash flows from its investments in SPIL and will maintain its debt levels at prudent levels (within the covenants agreed upon with the lenders. Since the revenue flows of SFPL is highly dependent on SPIL's performance and dividend policy, the financial performance and position of SPIL will be a key credit monitorable.

- **Offtake agreement with Indian Oil provides revenue visibility**

SPPL in July 2020 has signed an offtake agreement with Indian Oil (IOCL) for the purchase of oil from its Bhaskar Oil field. The field currently has 11 wells with output of ~1700 bbls/ day through the early production system put in place by the company. SPPL is currently installing a central processing facility which is expected to be completed by Q1 FY2022 and plans to add another 14 wells by FY2023-24 with further capex of another Rs. 100 Crs for the field to reach its peak output of ~4000 bbls per day. The price for the purchase has been benchmarked against the bonny light index. The agreement with IOCL provides revenue visibility both in term of quantity and pricing to SPPL. SPPL reported revenue of Rs. 49. 54 Crs in FY2020 and Rs. 21.17 Crs in FY2019 and operating profit of Rs. 6.20 Crs in FY2020 and an operating loss of Rs. 9.69 Cr in FY2019. Post the agreement for H1 FY2021 SPPL has generated revenue of Rs. 40.5 Crs and operating margin of 14.28 Crs.

Acuité believes that the agreement with IOCL will help SPPL improve its scale of operations which will continue to remain a key rating sensitivity.

Weaknesses

- **Project execution and demand risk**

After SPPL's foray into the E&P segment the company acquired smaller oilfields – Modhera and Baola with production of less than 100 bbls each. After gaining some experience in oil extraction the SPPL acquired the Hazira field and the Bhakar Field. Out of the current output of ~1900 bbls per day the total production from all the fields except Bhaskar remains less than 200 bbls per day.
Going forward, it will be SPPL's primary focus. Going forward Bhaskar field will be the orimariy focus for SPPl. SPPL acquired rights to the field in FY2019 (September 2018) from Reliance. This was funded by unsecured loans from SFPL of Rs. 200 Crs. In FY2020, this part of this debt has been replaced by bank borrowings of Rs. 200 Crs to be repaid by FY2022. The field currently has 11 wells with output of ~1700 bbls/ day through the early production system put in place by the company. SPPL is currently installing a central processing facility which is expected to be completed by Q1 FY2022 and plans to add another 14 wells by FY2023-24 with further capex of another Rs. 100 Crs for the field to reach its peak output of ~4000 bbls per day.

Acuité believes that for the company to generate cash inflows commensurate with its repayment obligation in the medium term timely completion of the central processing facility and planned capex remains a key factor.

- **Susceptibility of margins to fluctuations in the oil prices and forex rates**
  SPPL's offtake agreement with IOCL is benchmarked to Bonny Light oil price index. This is denominated in US dollars. Any adverse movement in oil prices or forex rates will directly impact the SPPL's margins as the revenues will decline without any corresponding decrease in production costs.

Liquidity Position: Strong

SPPL is currently incurring substantial capex for development of its oil field. This is primarily funded by debt. Hence the repayment obligations are expected to be high over the medium term. For the period FY2021-2023 the repayment obligations are expected to be in the range of Rs. 140 to Rs. 50 Cr against net cash accruals in the range of Rs. 159 Cr to Rs. 200 Cr. SPPL liquidity is also supported by strong financial flexibility of the parent company and promoter group. Acuité expects SPPL's liquidity profile to remain strong on account of adequate cushion between the repayment obligations and net cash accruals and strong financial flexibility of the parent company and promoter Group.

Material Covenants

None

Rating Sensitivities

- Completion of the planned capex without significant time and cost over runs and timely scaling up of operations.

Rating Outlook: Stable

Acuité believes that the SPPL will maintain a 'Stable outlook over the medium term on account of extensive experience of management and strong financial flexibility of the parent company. The outlook may be revised to positive in case of faster than expected completion of project and increase in scale of operations. Conversely, the outlook may be revised to 'Negative' in case significant cost and time overruns in completion of the project and slower than expected increase in the scale of operations.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	49.54	21.17
Profit after Tax (PAT)	Rs. Cr.	(20.14)	(10.01)
PAT Margin	(%)	(40.65)	(47.28)
Total Debt/Tangible Net Worth	Times	128.78	9.01
PBDIT/Interest	Times	0.32	(7.53)

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

Not Applicable

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
- Criteria for 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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
WCDL*	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A+/Stable (Assigned)
Term Loan	March 2020	9.20	April 2022	160.00	ACUITE A+/Stable (Assigned)

* WCDL has sublimit of CC of Rs. 10.00 Cr and sublimit of LC and BG of Rs. 20.00 Cr each

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.