Press Release

Sun Petrochemicals Private Limited

March 23, 2022

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE AA | Stable | Upgraded	-
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to **'ACUITE AA' (read as ACUITE double A)** from **'ACUITE A+' (read as ACUITE A plus)** on the Rs. 200 Cr. bank loan facilities of Sun Petrochemicals Private Limited (SPPL). The outlook is **'Stable'.**

Rationale for the rating upgrade

The rating upgrade reflects marked improvement in SPPL's operating performance, as reflected by increase in its revenue to Rs. 490 Cr. in 9M FY2022 compared to Rs.147 Cr. in FY2021 and Rs. 49 Cr. in FY2020. The operating profitability has also improved and stood at 64 percent for 9M FY2022 against 50 percent for FY2021 and 12 percent for FY2020. The improvement in performance is on account of stabilization of SPPL's operations and concurrent increase in the international crude oil prices. The rating continues to draw comfort from SPPL's strong parent Shanghavi Financial Private Limited (SFPL), with substantial liquid investment. SPPL is a part of the Sun Pharma Group (Sun Pharma) headed by Mr. Dilip Shanghvi, who also is one of the directors at SPPL. The rating takes into account the extensive experience of the senior management team in the oil exploration & production (E&P) segment. The above-mentioned rating strengths are partly offset by project implementation risk, particularly the timely completion of the ongoing capex, required funding to maintain SPPL's scale of operations and its susceptibility to volatility in forex rates and crude oil prices.

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 extraction 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 near Surat.

About the Guarantor

Shanghavi Finance Private Limited (SFPL) is an investment arm 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 2021. The rated bank facilities are also 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 support to SPPL from its parent SFPL.

Key Rating Drivers

Strengths

Extensive experience of the management in the oil exploration & production (E&P) segment

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

Strong financial flexibility and resource mobilization ability of the promoters

SPPL is a business venture of the promoters of Sun Pharma and is held through SFPL (investment arm of the promoter group which hold 40.3 per cent of SPIL's equity, aggregating to Rs.80,000 Cr in market value). SFPL - holds ~67 percent in SPPL. SPPL's bank facilities have been secured by corporate guarantee from SFPL. SPIL has been declaring dividend in a range of 100 per cent to 350 per cent over the last five years. There have been significant dividend inflows from SPIL in FY 2021, which is accretive to the group's financial flexibility. SFPL's outstanding debt as on 31 March 2021 stood at Rs.879 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 is also drawn from the fact that the SFPL's cash accruals in FY2021 are multiple 2.91 times SPPL's total bank facilities.
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.

Improvement in operating performance

SPPL has reported significant improvement in its operating performance reflected through revenue of Rs. 490 Cr until December 2021 and Acuite estimates the revenues to remain in the range of Rs. 600-700 Cr. in FY2022. This is a significant change in revenue profile compared to Rs. 147 Cr. in FY2021. While the operating profitability has improved to 64% in 9M FY 2022 from 50% in the previous year. The improvement is on account of increase in oil prices across the globe and higher daily oil production, which in turn is a result of stabilization of operations of SPPL. SPPL has signed an agreement with Indian Oil Corporation for offtake of its oil. This is benchmarked to the Bonny Light oil index (with a discount). The index has moved from USD 64 in March 2021 to USD 106 in March 2022. This agreement was signed in July 2020. SPPL has been adding more wells to increase its production capacity. It had 11 wells producing ~1200 bbl/day in March 2021 and the number of wells in March 2022 has gone up to 17 taking the total output to ~3300bbls/day. SPPL's costs of production remain around USD 20 per bbl. Thus any further increase in oil prices going forward is expected to improve SPPL's operating performance.

Acuite expects SPPL's ability to maintain its scale of operations and profitability will be a key rating sensitivity.

Weaknesses

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.

Rating Sensitivities

Completion of the planned capex without significant time and cost over runs

Slower than expected of growth in revenues on account of lower than expected oil production

Material covenants

None

Liquidity Position: Strong

As SPPL's operations have stabilized SPPL has generated significantly higher cash flows than previous year. Additionally the increase in the crude oil prices internationally on account various geopolitical reasons have also lead to an increased cash flow for SPPL. Going forward the company is expected to generate cash inflows in the range of Rs. 300-400 Cr. against repayment obligations of Rs. 55- 250 Cr. In FY2022-23, besides this the support is also available from its parent SFPL in the form Letter of Comfort. Hence, the team believes SPPL to maintain a strong liquidity profile on account of its healthy cash generation and support available from its parent.

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 scale up of operations. Conversely, the outlook may be revised to 'Negative' in case significant cost and time overruns in completion of planned capex leading to slower than expected increase in the scale of operations.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	147.62	49.54
PAT	Rs. Cr.	17.80	(20.14)
PAT Margin	(%)	12.06	(40.65)
Total Debt/Tangible Net Worth	Times	17.72	128.78
PBDIT/Interest	Times	2.37	0.32

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.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

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Mar 2021	Working Capital Demand Loan	Long Term	40.00	ACUITE A+ | Stable (Assigned)
	Term Loan	Long Term	160.00	ACUITE A+ | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	160.00	ACUITE AA | Stable | Upgraded (from ACUITE A+)
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	40.00	ACUITE AA | Stable | Upgraded (from ACUITE A+)

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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 8,850 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 Kanjurmarg, Mumbai.