Press Release

Sun Petrochemicals Private Limited

March 08, 2023

Rating Assigned and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	705.00	ACUITE AA | Stable | Assigned	-
Bank Loan Ratings	200.00	Not Applicable | Withdrawn	-
Non Convertible Debentures (NCD)	2000.00	ACUITE AA | Stable | Assigned	-
Bank Loan Ratings	2295.00	-	ACUITE A1+ | Assigned
Commercial Paper (CP)	400.00	-	ACUITE A1+ | Assigned
Total Outstanding Quantum (Rs. Cr)	5400.00	-	-
Total Withdrawn Quantum (Rs. Cr)	200.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE AA**' (**read as ACUITE double A**) and assigned the short term rating of '**ACUITE A1+** ' (**read as ACUITE A one plus**) on the Rs. 3000 Cr. bank loan facilities of Sun Petrochemicals Private Limited (SPPL). The outlook is '**Stable**'.

Acuité has assigned its long term rating of '**ACUITE AA**' (**read as ACUITE double A**) on the Rs.2000 Cr. Non Convertible Debentures (NCDs) of Sun Petrochemicals Private Limited (SPPL). The outlook is '**Stable**'.

Acuité has assigned the short term rating of '**ACUITE A1+** ' (**read as ACUITE A one plus**) on the Rs.400 Cr. Commercial Paper (CP) of Sun Petrochemicals Private Limited (SPPL).

Acuite has also withdrawn the rating on the Rs. 200 crore bank facilities of Sun Petrochemicals Private Limited (SPPL). The rating is withdrawn on account of request received from the company and NOC received from the banker. The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating.

Rationale for rating

The rating takes into account the augmentation in business risk profile of the company reflected by improvement in scale of operations led by stabilisation of its oil extraction operations. The revenues of the company witnessed significant growth of ~280% YoY to Rs.561.28 Cr. in FY22 against Rs.148 crore in FY21 majorly on account of increase in oil production and concurrent increase in the international crude oil prices. Also, the company has reported further growth of ~110% YoY in revenues during 9MFY23 to Rs.1002.88 Cr. The growth is majorly driven by increase in average daily production of oil which increased from ~3,300 bbls/day in 9MFY22 to ~5,100 bbls/day in 9MFY23. SPPL's operating margins has also improved from 50.08% in FY21 to 69.56% in FY22. The same has further improved to ~76% in 9MFY23. The rating continues to draw comfort from SPPL's strong parent Shanghvi Financial Private Limited (SFPL), with substantial liquid investment. SPPL is promoted by SFPL headed by Mr. Dilip Shanghvi who is the promoter of Sun Pharmaceutical Industries Limited (SPIL). 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 susceptible of SPPL's operations towards volatility in forex rates and crude oil prices.

Presently SPPL is operating four oil and gas fields viz Baola, Modhera, Hazira and Bhaskar-1. Baola, Modhera and Bhaskar-1 are on-shore fields and are mainly producing oil. Small quantity of associated natural gas is also being produced from Bhaskar field. Hazira is mix of onshore and offshore field and producing mainly gas and small quantity of oil. During the current fiscal year, the company has also been awarded three new fields viz. Prabhakar-1, Prabhakar-2 and Prabhakar-3 in Gujarat which are in shallow waters in the recently concluded OLAP (Open Acreage Licensing Programe) round VI and VII. The company has started work for exploration of oil and gas, which shall include ariel, 2D and 3D Seismic survey and drilling of exploratory wells. Furthermore, the company has also been awarded two small discovered fields viz. Bhaskar-2 and Bhaskar-3 in Gujarat in recently concluded DSF (Discovered Small Fields) round III bidding. All fields are in the state of Gujarat.

For the same, company had availed fresh working capital limits including both fund based and non-fund based from various domestic lenders. Furthermore, the company has also issued NCDs of Rs.475 crore along with fresh commercial papers for its expansion plans. The company is however not expecting any cash flows from these five new fields in next two years. For its existing Bhaskar field, the company is having capex plans of ~Rs.200 crore per annum for the next two years which is expected to be funded from cash flows generating from its existing operations.

About the Company

SPPL is a Vadodara based company incorporated in 1995. It is a privately held company promoted by Shanghvi Finance Private Limited (SFPL) headed by Mr. Dilip Shanghvi who is the promoter of Sun Pharmaceutical Industries Limited (SPIL), one of the largest Global Specialty Generic Company. Initially SPPL was into manufacturing of acetylene carbon black which is used in batteries, semi-conductive rubber & polymer compounds, conductive tapes, curing bladders for tires and other conductive applications. From 2014, the company entered into upstream Oil & Gas business and has signed various Production Sharing Contracts with Government of India 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 Gujarat and Western Offshore. Currently, SPPL has been actively operating four oil fields (Baola, Modhera, Hazira and CB-ONN-2003/1-Bhaskar Field). The Company is carrying out green field development of the Bhaskar Field while simultaneously monetizing the field with installation of Early Production System (EPS).

About the Guarantor

Shanghvi 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% of the total shareholding of Sun Pharma Industries Limited (SPIL) as on December 2022. The rated bank facilities are also secured by corporate guarantee of SFPL.

Standalone (Unsupported) Rating

ACUITE A-

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SPPL while arriving at the rating. Acuite has also factored in the support received by SPPL from its parent SFPL.

Key Rating Drivers

Strengths

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

SPPL is a Vadodara based company incorporated in 1995. It is a privately held company promoted by Shanghvi Finance Private Limited which is the promoter of Sun Pharmaceutical Industries Limited (SPIL) – one of the 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 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% of SPIL's equity, aggregating to ~Rs.80,000 Cr. in market value). Further, SFPL holds ~67% in SPPL as on 31 December 2022. 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 FY22, which is accretive to the group's financial flexibility. SFPL's total outstanding debt as on 31 March 2022 stood at Rs.538 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.

Acuité believes that SFPL will continue to generate a robust cash flow 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.

Augmentation in business risk profile

SPPL has reported significant improvement in its operating performance reflected through revenue of Rs.1002.88 Cr. in 9MFY23 reflecting a YoY growth of ~110% compared against same period last year. Acuité estimates the revenues to remain in the range of Rs.1400-1500 Cr. in FY23. This is a significant change in revenue profile compared to Rs.564.28 Cr. of revenues in FY22 and Rs.147.62 Cr. in FY21 respectively. 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. The growth is majorly driven by improve in average daily production of oil which increased from ~3,300 bbls/day in 9MFY22 to ~5,100 bbls/day in 9MFY23. SPPL has signed an agreement in July 2020 with Indian Oil Corporation for offtake of its oil which 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.

SPPL's operating margins has also improved from 50.08% in FY21 to 69.56% in FY22. The same has further improved to ~76% in 9M FY23. The company's oil extracting operating costs remained low in the range of ~ 20-30 USD per barrel. Thus, any further increase in oil prices going forward is expected to improve SPPL's operating performance.

Acuité 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.

ESG Factors Relevant for Rating

The petroleum industry has a significant environmental impact. Upstream operations of the petroleum industry negatively impact biodiversity. The management of toxic waste and reduction of carbon footprint is crucial for this industry. Furthermore, issues such as reducing environmental impact, sustainable supply chain management and achieving energy efficiency are crucial for the extraction industry. The company has policies, and initiatives to reduce air pollutants & waste. Upstream operations of petroleum industry face several social risks, with occupational health and safety being a major concern due to workers' proximity to heavy machinery, chemicals and equipment repair. Human rights and community development are key social issues critical to the extraction industry. Other material issues include product quality and supply chain management. The company has in place initi atives for human rights, community services and workforce health & safety.

For upstream operations in the petroleum industry, regulatory compliance and board oversight are critical issues. Moreover, ethical business practices are key material issues to the extraction industry. The company has adopted policies on equal voting and board gender diversity. Further, the company complies with the Companies Act 2013 for external auditor rotation and listing regulations.

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, the company has generated significantly higher cash flows than previous years. 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. 1035-1254 Cr. against repayment obligations of Rs.475 Cr during FY23-24 period. The strong liquidity profile of the company is also supported by strong promoter support from SFPL in the form Corporate Guarantee extended to its availed bank limits and infusion of funds in the form of unsecured loans for smooth running of operations. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	561.28	147.62
PAT	Rs. Cr.	324.71	17.80
PAT Margin	(%)	57.85	12.06
Total Debt/Tangible Net Worth	Times	1.94	17.72
PBDIT/Interest	Times	18.01	2.37

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Mar 2022	Working Capital Demand Loan	Long Term	40.00	ACUITE AA | Stable (Upgraded from ACUITE A+ | Stable)
	Term Loan	Long Term	160.00	ACUITE AA | Stable (Upgraded from ACUITE A+ | Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	500.00	ACUITE A1+ | Assigned
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	350.00	ACUITE A1+ | Assigned
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	325.00	ACUITE A1+ | Assigned
IDFC First Bank Limited	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	440.00	ACUITE A1+ | Assigned
IDFC First Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE AA | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE AA | Stable | Assigned
Not Applicable	Not Applicable	Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	Simple	400.00	ACUITE A1+ | Assigned
Not Applicable	INE0IWA08012	Non-Convertible Debentures (NCD)	15 Sep 2022	7.5	29 Apr 2024	Simple / Complex	475.00	ACUITE AA | Stable | Assigned
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	1525.00	ACUITE AA | Stable | Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	655.00	ACUITE A1+ | Assigned
Axis Bank	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1+ | Assigned
ICICI Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE AA | Stable | Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	160.00	Not Applicable | Withdrawn
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	40.00	Not Applicable | Withdrawn
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	200.00	ACUITE AA | Stable | Assigned
		Working						

Axis Bank	Not Applicable	Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	474.00	ACUITE AA | Stable | Assigned

Sublimits:
Kotak Mahindra Bank: Sublimit: CC – 10 Cr., Sales Invoice Finance – 50Cr., Short Term Loan – 100 Cr., BG 1 – 30 Cr., BG 2 – 10 Cr., LC1 – 20 Cr
Axis Bank: Sublimit: LOC – 474 Cr., Sales Bill Discounting – 125 Cr., Overdraft – 10 Cr., LC – 20 Cr., BG – 20 Cr.
IDFC First Bank: Sublimit: Sales Bill Discounting – 50 Cr.,
ICICI Bank: Sublimit: Line of Credit for short term loans – 20 Cr.
Yes Bank: Sublimit: CC – 12 Cr., WCDL – 30 Cr.
HDFC Bank: Sublimit: WCDL – 1 Cr.

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.