

Press Release
SUN PETROCHEMICALS PRIVATE LIMITED
February 28, 2024
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	705.00	ACUITE AA Stable Reaffirmed	-
Non Convertible Debentures (NCD)	2000.00	ACUITE AA Stable Reaffirmed	-
Bank Loan Ratings	2295.00	-	ACUITE A1+ Reaffirmed
Commercial Paper (CP)	400.00	-	ACUITE A1+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	5400.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) and 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**'.

Acuite has reaffirmed 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**'.

Acuite has reaffirmed 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).

Rationale for rating

The rating reaffirmation 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 grew at ~132% YoY to Rs. 1316.18 Cr. in FY23 from Rs. 561.28 Cr. in FY22 majorly on account of increase in oil production and concurrent increase in the international crude oil prices. The company reported a ~10% YoY growth in revenues during 9MFY24 to Rs.1074 Cr. The growth is majorly driven by increase in average daily production of oil with addition of new wells in the existing Bhaskar-1 field. SPPL's operating margins remain healthy at 65.83% in FY23 (69.56% in FY22). 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, the promoter of Sun Pharmaceutical Industries Limited (SPIL). SPPL's bank facilities were earlier backed by corporate guarantee issued by SFPL, which has been withdrawn for the bank facilities of Kotak Mahindra Bank and is under process for withdrawal of Axis bank facilities. However, Acuite considers the implicit from SFPL in form of unsecured loans and equity infusions. The ratings also consider 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.

About the Company

Incorporated in 1955, Sun Petrochemicals Private Limited (SPPL) is a Vadodara based company promoted by Shanghvi Finance Private Limited (SFPL) headed by Mr. Dilip Shanghvi, 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 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). Besides, it has 5 new fields of which two are under development stage and three under exploration stage. Also, the company has recently won bid for a new field under OALP VIII.

About the Parent

Shanghvi Finance Private Limited (SFPL) is a holding company for Sun Pharmaceutical Industries Limited. It holds ~40 per cent in SPIL. Incorporated in 1989, SFPL is Mumbai based company primarily engaged in making investments in various asset classes, viz, debt, listed and unlisted equity, real estate, etc., and is also engaged in advancing loans and financing to the group companies of the DS group.

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 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 upstream Oil & Gas business and has closed its other segments. 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.1,49,000 Cr. in market value). Further, SFPL holds ~67% in SPPL as on December 31, 2023. 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 and FY23, which is accretive to the group's financial flexibility. Further, SFPL does not has any outstanding debt

as on March 31, 2023. SPPL's bank facilities were earlier backed by corporate guarantee issued by SFPL, which has been withdrawn for bank facilities of Kotak Mahindra Bank and is under process for withdrawal of Axis bank facilities. However, there remains an implicit support from SFPL in form of unsecured loans and equity infusions. 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; adequate offtake agreement

SPPL has reported significant improvement in its operating performance in FY23 as reflected by revenues of Rs. 1316.18 Cr. registering a growth of 132% from Rs. 566.76 Cr. in FY22. In the current fiscal, the revenues stood at Rs.1074 Cr. in 9MFY24 reflecting an YoY growth of ~10% compared against same period in the last year. Acuité estimates the revenues to remain in the range of Rs.1400-1600 Cr. in FY24. The improvement was 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 from Bhaskar-1 field. The growth is majorly driven by improve in average daily production of oil that stands ~6,000 bbls/day currently and the management plans to expand the same to ~7,000-7500 bbls/day. 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). SPPL's operating margins continue to remain healthy at 65.83% in FY23 and 68.34% in 9MFY2024 as against 69.56% in FY22. 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 along with profitability will be a key rating sensitivity. Acuite notes that the company has invested Rs. 1105.77 crore in three partnership entities/LLPs of the group. While the management plans to divest the said stake in these entities in the near to medium term, the returns on these investments and any further investments thereof would be a key monitorable.

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 as the 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 initiatives 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
- Moderation in SFPL's financial risk profile or support philosophy of the promoter

Liquidity Position

Strong

SPPL's liquidity position remains strong as reflected by a healthy generation of cashflows of ~Rs. 792 Cr. in FY23 and absence of the debt repayment obligation. The company is expected to generate an annual cash accruals Rs. 700 to 800 Cr. against an impending repayment of Rs. 475 Cr. NCDs. Besides, the company has liquidity buffer with unutilised CPs of Rs. 400 Cr. and working capital limits. The strong liquidity profile of the company is also supported by the financial flexibility emanating from the strong promoter support from SFPL in the form of infusion of funds as the unsecured loans for smooth running of operations. Hence, Acuite believes SPPL to maintain a strong liquidity profile on account of its healthy cash generation and support available from its parent.

Outlook: Stable

Acuite 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 higher than expected scale up of operations while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case significant cost and time overruns in completion of planned capex leading to lower than expected scale of operations and cash accruals.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1316.18	566.76
PAT	Rs. Cr.	510.10	324.71
PAT Margin	(%)	38.76	57.29
Total Debt/Tangible Net Worth	Times	1.33	2.80
PBDIT/Interest	Times	15.02	17.97

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

Not applicable.

Any other information

None

Applicable Criteria

- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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>
- Commercial Paper: <https://www.acuite.in/view-rating-criteria-54.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
08 Mar 2023	Proposed Short Term Bank Facility	Short Term	25.00	ACUITE A1+ (Assigned)
	Bank Guarantee (BLR)	Short Term	440.00	ACUITE A1+ (Assigned)
	Bank Guarantee (BLR)	Short Term	500.00	ACUITE A1+ (Assigned)
	Bank Guarantee (BLR)	Short Term	350.00	ACUITE A1+ (Assigned)
	Bank Guarantee (BLR)	Short Term	325.00	ACUITE A1+ (Assigned)
	Proposed Short Term Bank Facility	Short Term	655.00	ACUITE A1+ (Assigned)
	Commercial Paper Program	Short Term	400.00	ACUITE A1+ (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	40.00	ACUITE Not Applicable (Withdrawn)
	Term Loan	Long Term	160.00	ACUITE Not Applicable (Withdrawn)
	Working Capital Demand Loan (WC DL)	Long Term	200.00	ACUITE AA Stable (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	474.00	ACUITE AA Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE AA Stable (Assigned)
	Secured Overdraft	Long Term	20.00	ACUITE AA Stable (Assigned)
	Cash Credit	Long Term	1.00	ACUITE AA Stable (Assigned)
	Non-Covertible Debentures (NCD)	Long Term	475.00	ACUITE AA Stable (Assigned)
Proposed Non Convertible Debentures	Long Term	1525.00	ACUITE AA Stable (Assigned)	
23 Mar 2022	Working Capital Demand Loan (WC DL)	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	Term Loan	Long Term	160.00	ACUITE A+ Stable (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	40.00	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
IDFC First Bank Limited	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	440.00	ACUITE A1+ Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	500.00	ACUITE A1+ Reaffirmed
Yes Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	350.00	ACUITE A1+ Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	325.00	ACUITE A1+ Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.00	ACUITE AA Stable Reaffirmed
IDFC First Bank Limited	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE AA Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Commercial Paper Program	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	400.00	ACUITE A1+ Reaffirmed
Not Applicable	INE0IWA08012	Non-Convertible Debentures (NCD)	16 Sep 2022	8.6	29 Apr 2024	Simple	475.00	ACUITE AA Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Non-Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1525.00	ACUITE AA Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A1+ Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	655.00	ACUITE A1+ Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE AA Stable Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	200.00	ACUITE AA Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Working Capital Demand Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	474.00	ACUITE AA Stable Reaffirmed

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***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Sr. No.	Company Name	Type of Entity
1	Shanghvi Finance Private Limited	Holding company

Contacts

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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.

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