

28th September 2024

The Secretary
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400 001
Script Code: 974888

Dear Sir/Madam.

Subject: Intimation pursuant to the provisions of Regulation 51 (2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 {SEBI (LODR) Regulations 2015} - Credit Rating

Pursuant to Regulation 51 (2) of the SEBI (LODR) Regulations, 2015, this is to inform you that CRISIL Ratings Limited (CRISIL) has assigned its ratings for the Bank facilities of the Company as under:

Name of the agency	Type of Instruments	Rating
CRISIL Rating Limited (CRISIL)	Short Term Rating	CRISIL A1+
	Long Term Rating	CRISIL AA-/ Stable

A copy of the detailed Rationale report issued by CRISIL in this regard is attached herewith and can also be accessed on the website of CRISIL at the link given below:

https://www.crisilratings.com/mnt/winshare/Ratings/RatingList/RatingDocs/PerformanceChemiserveLimited_September%2027_%202024_RR_350097.html

We request you to take the same on your record.

Thanking you,

Yours faithfully,

For Performance Chemiserve Limited

Pankaj Gupta

Company Secretary

Membership No.: FCS-9219

Encl: as above

Rating Rationale

September 27, 2024 | Mumbai

Performance Chemiserve Limited

'CRISIL AA- / Stable / CRISIL A1+' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.2900 Crore
Long Term Rating	CRISIL AA-/Stable (Assigned)
Short Term Rating	CRISIL A1+ (Assigned)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL AA-/Stable/CRISIL A1+' ratings on the bank facilities of Performance Chemiserve Ltd (PCL; part of the Deepak Fertilizers group and wholly-owned subsidiary of Deepak Fertilisers and Petrochemicals Corporation Ltd [DFPCL]).

The ratings reflect the strong business profile of the parent, DFPCL (CRISIL AA-/Stable/CRISIL A1+), supported by a diversified product range, broadly comprising industrial chemicals (IC), technical ammonium nitrate (TAN) and complex fertilisers. The group holds a market leadership position in TAN and key IC products such as Nitric acid, and Isopropyl alcohol (IPA). Further, commissioning of the ammonia project during fiscal 2024 has led to a healthy backward integration as ammonia is a key raw material for production of industrial chemicals, fertiliser and technical ammonium nitrate.

The rating also reflects the strategic importance of PCL to the parent, and strong operational, financial and managerial linkages, considering PCL houses the project for backward integration of ammonia which is a key raw material for the product portfolio of group including TAN, nitric acid and fertilizers. The key group entities have provided corporate guarantees to the entire debt in PCL. Over and above the initial equity infused for the ammonia plant, the DFPCL group also infused intercorporate deposits (ICDs) worth ~Rs 890 crore to support the completion and operations of project. Interest on these ICDs is being accrued to support the cash flows for PCL. CRISIL Ratings expects timely and need based financial support for debt servicing from group entities.

The ammonia project under PCL has a capacity of 5,10,000 MTPA (metric tonnes per annum) which got commissioned in August 2023. There is low offtake risk since 85%-90% of the production is being sold to group entities at arm's length pricing while the rest is being sold in the open market. PCL had a revenue of Rs 1251 crore for fiscal 2024 with earnings before interest, tax, depreciation and amortisation (EBITDA) of Rs 122 crore. EBITDA was subdued due to stabilisation issues and gradual ramp up seen in volumes. In Q1FY25, PCL reported an EBITDA loss of Rs 12.55 crore due to lower ammonia realisations, in line with international prices. However, capacity utilization has crossed 95% and profitability is expected to normalise with pickup seen in international ammonia prices. These will remain key monitorable.

Presently, PCL has medium to long-term natural gas procurement contracts at competitive prices, so as to mitigate the risk of price volatility and any shortage. From fiscal 2027 and onwards, PCL's profitability will benefit significantly from the lower-priced natural gas, as per its long-term contract with Equinor, an international energy company headquartered in Norway, which is priced more favourably than its existing contracts. Moreover, PCL receives 9% SGST benefit on its sales within Maharashtra as state government incentive, eventually cumulatively adding upto to the ~75% of the total project cost (of which Rs 89 crore was accrued in fiscal 2024 and Rs 35 crore is accrued in Q1FY25), which adds to its profitability.

The financial risk profile is constrained by modest debt protection metrics which are expected to improve as the project ramps up. The project cost for the same was ~Rs 4500 crore, which was funded through a mix of debt and equity. Net debt to EBITDA was high at over 13 times for fiscal 2024 and is expected to be below 6 times for fiscal 2025 and reduce gradually thereon as the project ramps up further. Standalone debt servicing is also supported via debt service reserve account (DSRA) of 3 months on principal and interest payments and input credits on GST worth ~Rs 250 crore as on June 30, 2024.

These strengths are offset by vulnerability to cyclical in ammonia and natural gas prices and modest debt protection metrics.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of DFPCL and its subsidiaries (including PCL), collectively referred to as the Deepak Fertilizers group, given their significant operational, financial and managerial linkages.

CRISIL Ratings has also applied its parent notch-up criteria to factor in the significant linkages of DFPCL with PCL.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong linkages with the ultimate parent, DFPCL**

DFPCL indirectly holds 100% stake in PCL. The parent and group entities have provided a corporate guarantee to the debt of PCL. They have also infused ~Rs 890 crore of ICDs to support the project and provided articulation of need based support. CRISIL Ratings expects this support stance to continue until PCL starts generating strong cash flows.

The group benefits from sourcing of ammonia from PCL which is the key raw material for all businesses under DFPCL. This leads to steady supply and healthy profitability overall for the group. Hence, PCL has strategic importance to DFPCL and the strong linkages are expected to continue.

- **Healthy business risk profile**

Most of the ammonia is being sold to group entities where there is an arm's length pricing agreement. At steady state, ~85%-90% of volumes will be sold to group entities while the remaining is sold in the open market. Since there is import dependency in India for ammonia and it has healthy demand across industries like fertilizers and chemicals. Post commissioning in Q2FY24, capacity utilization for PCL has already crossed 90% in recent months and is expected to remain strong going forward. Moreover, PCL will be eligible to receive 9% SGST benefit on its sales within Maharashtra as state government incentive. This will support revenue visibility of PCL in the near to medium term.

Weaknesses:

- **Modest financial risk profile**

The financial risk profile is marked by a strong net worth of over Rs 1600 crore as on March 2024. However, profitability is expected to be subdued for fiscal 2025 due to rangebound ammonia realisations leading to modest accruals in fiscal 2025. This will lead to low interest cover below 1.5 times in the near term and debt/EBITDA above 4 times in the near term. Significant improvement in profitability is expected in fiscal 2027 onwards with tie up of cheaper gas with Equinor leading to improvement in debt protection metrics. Improvement in profitability leading to improvement in debt protection metrics will remain key monitorable.

- **Exposure to structural limitations and cyclicity in commodity prices**

PCL is susceptible to commodity cycles which impact both input and final product prices with realizations and profitability being a function of international ammonia prices. This was visible in the operating loss in the first quarter of fiscal 2025 due to subdued ammonia realisations. Furthermore, India being an importer of natural gas - which is the input for primary feedstock, ammonia - PCL faces structural limitations in this segment. However, variations in natural gas supply are mitigated as the group has long-term natural gas tie-ups. The contracts also have defined pricing formulas which mitigate the volatility associated with spot gas prices. The group will further benefit from the long-term natural gas contract that DFPCL has signed with the Norwegian-based company Equinor, effective from May 2026, at more competitive prices than existing contracts. Susceptibility to ammonia and gas prices impacting profitability will remain a key monitorable.

Liquidity: Strong

PCL has unencumbered cash and equivalents of Rs 32 crore as at June 30, 2024. Expected net cash accrual of Rs 50-100 crore for fiscals 2025 and 2026, should suffice to cover the yearly term debt repayments while the NCDs should be comfortably refinanced. Working capital requirement shall be met through net cash accrual and unutilized fund-based bank limit of Rs 100 crore. A DSRA of 3 months for principal and interest payments and need based support from group entities further supports the liquidity. Moreover, input credits on GST worth ~Rs 250 crore was available as on June 30, 2024.

Outlook: Stable

The business profile will remain comfortable over the medium term, considering the low offtake risk. While the financial risk profile may remain moderate, the company will benefit from its strong linkages with the Deepak Fertilizers group.

Rating sensitivity factors

Upward factors

- Upgrade in the credit rating of DFPCL by one or more notches
- Significant improvement in accruals leading to lower debt and stronger debt protection metrics.

Downward factors

- Downgrade in the credit rating of DFPCL by one or more notches or dilution in support stance towards PCL
- Weaker-than-expected operating performance leading to lower-than-expected realisations and subdued profitability

About the Company

PCL is a wholly owned step-down subsidiary of DFPCL. It is engaged in manufacturing of ammonia with a capacity of ~5,10,000 MTPA at Taloja, Maharashtra. It is also engaged in the drumming of chemicals like IPA (Iso-Propyl Alcohol) for DFPCL.

About the Group

DFPCL is among the India's leading manufacturers of industrial chemicals and fertilisers. The group mainly operates in three verticals - industrial chemicals, crop nutrition (fertilizers) and technical ammonium nitrate (mining chemical). DFPCL is a publicly listed company.

The group has multiple plants namely in Maharashtra (Taloja), Gujarat (Dahej), Andhra Pradesh (Srikakulam), and Haryana (Panipat). It also owns a commercial mall space called Creativity in Pune.

Key Financial Indicators of DFPCL (Consolidated)

As on / for the period ended March 31	Units	2024	2023
Operating income	Rs crore	8,676	11,301
Reported profit after tax	Rs crore	457	1,221
PAT margin	%	5.3	10.8
Adjusted debt/adjusted networkth	Times	0.76	0.71
Interest coverage	Times	3.49	11.55

Key Financial Indicators for PCL

As on / for the period ended March 31	Units	2024	2023
Operating income	Rs crore	1,251	7
Reported profit after tax	Rs crore	-105	6
PAT margin	%	-8.4	NM
Adjusted debt/adjusted networkth	Times	1.6	1.1
Interest coverage	Times	0.68	NM

Source: Company, CRISIL-adjusted

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Fund-Based Facilities	NA	NA	NA	100.00	NA	CRISIL AA-/Stable
NA	Non-Fund Based Limit	NA	NA	NA	660.00	NA	CRISIL A1+
NA	Proposed Working Capital Facility	NA	NA	NA	140.00	NA	CRISIL AA-/Stable
NA	Proposed Term Loan	NA	NA	NA	900.00	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	30-Sep-32	700.00	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	30-Sep-32	400.00	NA	CRISIL AA-/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2240.0	CRISIL AA-/Stable		--		--		--		--	--
Non-Fund Based Facilities	ST	660.0	CRISIL A1+		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities	50	Canara Bank	CRISIL AA-/Stable
Fund-Based Facilities	50	State Bank of India	CRISIL AA-/Stable
Non-Fund Based Limit	610	Canara Bank	CRISIL A1+

Non-Fund Based Limit	50	State Bank of India	CRISIL A1+
Proposed Term Loan	900	Not Applicable	CRISIL AA-/Stable
Proposed Working Capital Facility	140	Not Applicable	CRISIL AA-/Stable
Term Loan	700	Canara Bank	CRISIL AA-/Stable
Term Loan	400	State Bank of India	CRISIL AA-/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Chemical Industry
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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