Haldia Petrochemicals bid to stay strong
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Haldia Petrochemicals Ltd, Bengal's premier manufacturing giant, has reported a surprise loss in the last financial year after three years of consecutive profits.

The company, which produces polymer used in making plastic materials, recorded a Rs 309.5-crore loss in 2018-19 compared with Rs 102.4-crore profit a year ago.

HPL is an unlisted company, majority owned by The Chatterjee Group, headed by Purnendu Chatterjee. West Bengal Industrial Development Corporation, the Bengal government's premier industry promotion outfit, is a significant minority shareholder.

However, it also noted the inherent strength of the company, thanks to the profitable period of the last three years and a healthy cash position.

The agency pointed out three key reasons for the change in outlook. The revision is on account of a weaker than expected performance in 2018-19, subdued industry outlook owing to which tolling margins are expected to remain weak over the near to medium term and significant investments in subsidiaries and loans and advances to group companies.

The manufacturing plant, where a major fire claimed three lives in September and halted production, could not produce to its optimum level for two months in the last fiscal as well because of a maintenance shutdown spanning May-June 2018.

While the operational performance was shaky, the petrochemical cycle is not supporting the company either. Tolling margins for all types of crackers – HPL operates a naphtha cracker – are expected to remain subdued and below their last 10-year averages over the medium term, owing to a supply overhang, demand slowdown and more intense competition.

"The global operating rates of ethylene plants had peaked in 2017. However, the industry is now passing through a phase of capacity investment. Owing to supply overhang, ethylene overcapacity and downcycle in margins are projected through 2023," said an Icra report on the challenges ahead for Indian petrochemical producers that came out in Septmeber.

Investments in subsidiaries

HPL has been investing in subsidiaries and extending short-term loans and advances to group companies, with the current total exposure at Rs 1,325 crore. Of this, the company has invested about $175 million in HPL Global, a trading subsidiary at Singapore, to enable paper and physical trade with large counter-parties and better commodity risk management.

However about $90 million has been extended to group companies as security deposit and loans and advances. Icra said a further material rise in loans and advances to group companies would remain a key rating sensitivity.

Inherent strength

Unlike in the past, when the feud between the two principle promoters crippled the business for a decade and nearly pushed it to bankruptcy, HPL is now in a much better position to absorb internal and external shocks.

The liquidity position has improved and the company started paying off debts and meeting all interest payment obligations. Ever since it started operations in February 2015 after a gap of seven months, there has been a continuous upswing under Chatterjee’s leadership.

However, because of the rise in net working capital requirement, the capex undertaken, prepayment of debt in 2018-19 and investments in group companies, the cash and cash equivalents declined to Rs 2,620.2 crore at end of 2019-20 from Rs 4,673.3 crore in end of 2018-19, the Icra report said.

Value addition

HPL has set up a butene-1 plant (under its subsidiary), with a capex of about Rs 300 crore and a pygas desulfurisation project at a capex of about Rs 105 crore, both of which have now gone to commercial production. Moreover, it has undertaken a Rs 360-crore project to change the fuel of two boilers from CBFS to coal, which is likely to be completed by the end of 2020. This will lead to substantial savings.