Rashtriya Chemicals and Fertilizers Limited

October 20, 2022

Rating

Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper (CP) issue	3,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total instruments	**3,000.00 (₹ Three thousand crore only)**		

Details of instruments in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the commercial paper issue of Rashtriya Chemicals and Fertilizers Limited (RCF) continues to derive strength from its established position in the domestic fertiliser industry, diverse product portfolio (urea, complex fertilisers and industrial chemicals) and both its plants operating at optimum capacity. The rating also favourably factors in the strategic position of RCF due to the controlling (75%) equity stake held by the Government of India (GoI), which also imparts high financial flexibility to it. Furthermore, the rating favourably factors healthy energy efficiency of its plants with the actual energy consumption being in line with the GoI-prescribed norms, significant improvement in its cash accruals during FY22 (refers to the period April 1 to March 31) and Q1FY23 on the back of improved performance of industrial products division, comfortable leverage and strong liquidity. Furthermore, the rating also takes into account the favourable resolution of its long-pending dispute pertaining to utilisation of subsidised gas for other-than urea manufacturing operations.

The rating, however, continues to be partially tempered by its presence in the regulated fertiliser industry, elevated level of raw material and natural gas prices leading to higher subsidy receivables, which can potentially result in an elongation of the operating cycle, fluctuations in forex rates, cyclicality associated with industrial chemicals and its large-size capex plans as well as significant investments planned in projects taken up in joint ventures (JVs) which are proposed to be largely debt funded.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Dilution in the equity stake of GoI below 51%
- Dilution in strategic importance of RCF to GoI
- Interest coverage deteriorating below 2x on a sustained basis
- Total debt/ PBILDT increasing above 5x on a sustained basis
- Significant increase in subsidy receivables adversely impacting its liquidity on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Established position of RCF in the domestic fertiliser industry; and vertically-integrated operations with diverse product offering: In terms of manufacturing capacity, RCF is the fifth-largest producer of urea in India. Furthermore, as per the latest available urea dispatch data, RCF holds a market share of around 9% for urea sales in India. RCF caters to the demand of around 18 states from its two manufacturing facilities located in Maharashtra.

The operations of RCF are marked by high level of vertical integration across both fertilisers and industrial chemical product divisions. Its diverse product profile with revenues consisting of fertilisers: urea, complex fertilisers, traded fertilisers and industrial chemicals coupled with the flexibility to change its product mix in accordance with market conditions imparts stability to its revenues. RCF has an established countrywide dealer distributor network of over 5,800 points of contacts which helps in catering to the diverse geographies.

Operating at optimum capacity with healthy energy efficiency: RCF has maintained high operating efficiency at its Thal and Trombay plants in Maharashtra with capacity utilisation of near 100% over the past few years. The actual energy consumption continues to remain in line with the preset norm announced by the GoI in the New Urea Policy (NUP) 2015, which lays emphasis on urea subsidy payment based upon the energy-efficiency level of the unit rather than feedstock used in manufacturing and vintage of the manufacturing units. The energy consumption levels of Thal and Trombay plants stood at 5.84 and 6.51 giga calorie (Gcal)/ metric tonne (MT) against set energy norms of 6.20 and 6.50 Gcal/MT respectively in FY22. Similarly, during Q1FY23 the energy-consumption levels remained at 5.84 Gcal/MT and 6.56 Gcal/MT for its Thal and Trombay plants respectively. Since, GoI has been progressively tightening these energy consumption norms, RCF has planned capital expenditure to improve energy efficiency of its plants. RCF is undertaking capex with regard to revamping of its Ammonia and Urea plants at Trombay which are further likely to reduce energy consumption. Also, it is in the process of installing another gas turbine generator at Trombay to further improve its efficiency. Accordingly, despite implementation of tighter energy norms at Trombay going forward, with successful and timely completion of the capex, RCF should be able to operate its plant in an efficient manner.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Improvement in financial performance during FY22 and Q1FY23: The total operating income (TOI) of RCF improved by nearly 50% during FY22 on a y-o-y basis on the back of high subsidy requirement, higher trading income and improved performance of its industrial products division. The operating profitability margins marked by PBILDT margin remained healthy at 7.51% during FY22 as against 8.66% during FY21 owing to elevated raw material and gas prices. In-spite of some moderation in its PBILDT margin, its cash accruals for FY22 stood at ₹877.31 crore vis-à-vis ₹578.47 crore in FY21 on the back of significant improvement in profitability of its industrial products division. Its performance further improved marked by PBILDT margin of 9.97% in Q1FY23 with cash accruals of ₹339 crore. Furthermore, the operating cycle of RCF improved significantly to 61 days (PY21: 121 days) on account of receipt of subsidy backlogs in FY21 and receipt of subsidy at regular intervals in FY22. Furthermore, its debt coverage indicators marked by interest coverage and Total Debt /PBILDT stood comfortable at 7.41x and 3.10x times in FY22.

Favourable resolution of its long-pending dispute w.r.to order issued by Dept. of Fertilizers (DoF): DoF had issued office memorandum (OM) on January 6, 2014 to RCF for recovery of undue benefits on account of usage of Administered Price Mechanism (APM) gas to manufacture P&K fertilizers from the date of OM considering differential price of fertilisers based on imported ammonia and the APM gas, pending finalisation of guidelines on recovery. Furthermore, Ministry of Petroleum & Natural Gas (MoPNG) vide its order dated December 16, 2015, had directed GAIL India Ltd (GAIL) to levy higher gas price (the highest rate of RLNG used for urea production) for gas consumed for non-urea operations. Accordingly, GAIL had raised a claim of ₹1,457.92 crore on RCF against which RCF had made provisions of ₹234.17 crore. This matter was heard in the meeting of Administrative Mechanism for Resolution of CPSEs Disputes (AMRCD) in June 2021 and vide its order dated July 06, 2021, AMRCD has determined total claim to be paid by RCF at ₹106.82 crore including a claim relating to gas transportation charges of earlier years. RCF fully paid ₹106.82 crore in FY22 and accordingly the excess provision of ₹127.35 crore was written back in FY22.

Compliance with environment, social and governance (ESG) risk factors: RCF has taken various sustainability initiatives to reduce energy consumption at both of its plants viz. Trombay and Thal. RCF has been focusing on water management to bring down the water usage and conserve water at its plants wherein almost 75% of its water requirement at Trombay is met through water generated at its sewage treatment plant (STP). With a view to harness renewable energy sources, RCF has set up rooftop solar power generating facilities at its Trombay & Thal plants and marketing offices. RCF has also implemented projects for improving energy efficiency including commissioning of gas turbine generator with heat recovery steam at Trombay and Thal unit and revamping of CO_2 compressor and turbine at Thal unit. As part of its initiatives under corporate social responsibility, RCF has undertaken several projects in the areas of rural development, promoting health care, nutrition and education aimed for the benefit of society. Its governance structure is characterised by 75% ownership of GoI, 38% of its board comprising independent directors, strong investor grievance redressal and extensive disclosures.

Liquidity: Strong

Strong liquidity of RCF is characterised by sufficient cushion in its cash accruals vis-à-vis its term debt repayment obligations for FY23. Also, it had free cash and bank balance of ₹1,100 crore on March 31, 2022. The utilisation of its fund-based bank limits stood moderate at around 24% for the 12 months ended June 2022 and its CP limit of ₹3,000 crore remain unutilised since April 2022. The current ratio of 1.33x as on March 31, 2022, also supports the liquidity position of RCF. Also, whenever there is stress in government-owned urea companies owing to delay in receipt of fertiliser subsidy, government funds under the Special Banking Arrangement are made available wherein, GoI bears a substantial portion of the interest on the loan which further supports its liquidity.

Key rating weaknesses

Exposure to highly regulated nature of fertiliser industry and agro-climatic risks: Though, the fertiliser industry is strategic for the Indian government, it is also a highly controlled industry and the profit margins and liquidity largely hinge on government regulations. In case of urea, RCF's liquidity depends on timely subsidy receipt from GoI. Furthermore, in case of P&K fertilizers, the subsidy remains capped and increase in gas and raw material prices impacts RCF's profitability as entire rise in cost structure is generally not fully passed on to the consumers in-spite of the same not being controlled by the GoI. Furthermore, the agro-climatic risks may also reduce the revenues and delay the receipt of subsidies for the fertiliser companies.

Cyclicality in industrial chemical business; albeit significant improvement in profitability of the segment in FY22 and Q1FY23: RCF manufactures around 20 industrial chemicals which contribute around 15%-18% to its TOI. The chemicals manufactured by RCF have diverse industrial application in user industries like pharma & drugs, civil aviation and pesticides. Since, these chemicals are highly commoditised and cyclical in nature; the prices remain volatile on back of global demand and supply, cheaper imports from other countries, prices of its substitutes and key raw material prices. As a result, the operating profit margin for the segment is susceptible to volatility associated with the products. The performance of industrial chemicals division, however, has been improving since FY21 and has reported significant improvement in its PBIT margins during FY22 & Q1FY23.

Elongation in subsidy receivables albeit enhanced subsidy budget for FY23 to take care higher subsidy requirement to an extent: There has been significant increase in raw material and gas prices leading to higher cost of production of fertilisers during the last one year. In line with the same, GoI has upward revised subsidy budget for FY23 to around ₹2,15,000 crore vis-à-vis subsidy budget of ₹1,58,000 crore for FY22. On the back of elevated cost structure with fixed price of urea, subsidy receivables of RCF increased from ₹1,104 crore as on March 31, 2021 to ₹2794 crore as on March 31, 2022. Going forward, the subsidy receivables is likely to further increase by end-FY23, however enhanced subsidy budget for FY23 is likely to arrest the sharp rise in subsidy receivables of RCF.

Large-size capex to comply with tightening of efficiency norms, new projects and planned investments in JVs: RCF has planned total own capex (around ₹1,340 crore) and investment in JVs (around ₹380 crore) for around ₹1,720 crore over the next three years period which is envisaged to be funded by term debt of ₹1,204 crore and balance from internal accruals/available liquidity. The DoF has been tightening energy consumption norms for the fertiliser units to reduce subsidy disbursement. RCF, on account of its older plants has planned total capital expenditure of around ₹252 crore towards renovation and modernisation of its Trombay plant in the next three years, whereas it has pending capex of around ₹117 crore towards Urea reactor, effluent treatment plant (ETP) and new Ammonia storage tank at its Thal plant. The above capex includes capex for setting up an Ammonium Nitrate plant at a cost of ₹180 crore and Nano urea plant at around ₹150 crore at Trombay over the next three years. RCF had entered into a JV named Talcher Fertilizers Ltd. (TFL) with GAIL, Coal India Ltd. (CIL) and Fertilizer Corporation of India Ltd. (FCIL) for revival of Talcher unit of FCIL whereby RCF's share in the JV is 31.85%. TFL is setting up a coal gasification-based fertilizer complex comprising 2,200 MTPD of Ammonia plant and 3,850 MTPD of Urea plant at Talcher, Odisha. The total estimated capex towards revival of this unit is expected to be around ₹13,277 crore to be funded by debt-equity ratio of 72:28. RCF will be required to infuse its share of equity in the JV which amounts to ₹1,184 crore. By end-FY22, ₹805 crore is already infused by RCF (₹270 crore invested in FY22). Apart from this, RCF has planned to enter into another JV with its 17% stake in JV for revival of Namrup unit of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL, 11%) along-with NFL (28%), Oil India Ltd. (18%) and Govt. of Assam (26%). This JV entails to set-up a urea plant with an annual capacity of 1.27 million MT. Feasibility study for the project is being carried out and no major investment from RCF is expected in coming three-year's period.

Analytical approach: Consolidated as RCF has commitment to infuse equity in its, JV, namely, Talcher Fertilizers Ltd. and has proposed JV with Brahmaputra Valley Fertilizer Corporation Ltd. These JVs are in similar line of business. Furthermore, the ratings also factor in substantial ownership by GoI and the support it receives by virtue of its strategic importance to GoI.

Applicable criteria

CARE's policy on default recognition
Criteria for Short term instruments
Rating methodology – Manufacturing companies
Rating methodology - Fertilizer companies
Rating methodology - Consolidation
Financial ratios – Non-financial sector
Liquidity Analysis of Non-financial sector entities

About the company

RCF was incorporated in 1978 following the reorganisation of the erstwhile Fertilizer Corporation of India Ltd. The Government-owned (GoI has 75% equity stake) RCF is one of the leading fertilizer manufacturers in India and operates with two manufacturing facilities located at Thal (Raigad district) and Trombay (near Mumbai). The Thal unit primarily focuses on manufacturing of Urea and has capacity to manufacture 2.00 Million Metric Tonnes Per Annum (MMTPA) of Urea, while the Trombay unit operates with Urea capacity of 0.33 MMPTA and other complex fertilizer capacity of 0.69 MMTPA. RCF sells its products under well-established brands "Ujjwala" (urea) and "Suphala" (complex fertilizers). Apart from manufacturing of fertilizer, RCF is also engaged in manufacturing of a wide range of industrial chemicals such as concentrated nitric acid, ammonium bi-carbonate, methylamines, ammonium nitrate melt, etc. targeted at diverse industries and marketing of bought-over items like Single Superphosphate (SSP) and imported fertilizers like, Di-ammonium Phosphate (DAP), Muriate of Potash (MOP) & NPK (Nitrogen, Phosphorus and Potassium) fertilizers.

(₹ Crore)

Brief Financials of RCF (Consolidated)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income (TOI)	8,281.18	12,812.17	4,956.51
PBILDT	717.42	961.75	494.21
PAT	384.07	702.39	299.60
Overall gearing (times)	0.62	0.77	NA
PBILDT interest coverage (times)	3.95	7.41	9.89

A: Audited; UA: Unaudited; NA: Not available; Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments: Not applicable

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	3000.00	CARE A1+

No commercial paper was outstanding as on October 14, 2022

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	3000.00	CARE A1+	-	1)CARE A1+ (26-Oct-21)	1)CARE A1+ (30-Oct-20)	1)CARE A1+ (27-Feb-20) 2)CARE A1+ (01-Oct-19)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-4: List of entities getting consolidated with RCF

Sr. No.	Name of companies/Entities	% holding of RCF as on March 31, 2022
1	FACT-RCF Building Products Ltd.	50.00
2	Urvarak Videsh Ltd.	33.33
3	Talcher Fertilizers Ltd.	33.33

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings Limited (CARE Ratings) has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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