

The Fertilisers And Chemicals Travancore Limited

March 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	735.00 (Enhanced from 200.00)	CARE A-; Stable / CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of The Fertilisers and Chemicals Travancore Limited (FACT) derives strength from availability of strong and continued financial support from the Government of India (GOI holds 90% stake in FACT). The rating also reflects FACT's established market position in South India. Moreover, the company has reported considerable improvement in credit profile in FY22 & 9MFY23 supported by healthy operating performance optimum capacity utilisation. The rating also factors FACT's ability to maintain its profitability margins despite of increase in raw material prices by way of passing part of it to the farmers and partly being mitigated by increase in subsidy allocation. The company has well-established and integrated operations in fertilizers and industrial chemicals, tie ups with oil companies for supply of Regasified Liquefied Natural Gas (RLNG) which provides visibility of continued supply of natural gas and other raw materials. Since December 31, 2019, FACT has not relied either on term loans or working capital bank borrowing, however it continues to have outstanding debt that it owes to the Government of India (GOI). FACT has requested the GOI to write off the loan interest, convert a portion of the loan into equity and change the balance loan amount to interest-free loan repayable in 10 annual instalments starting from FY23. Although, this proposal is recommended by NITI Aayog and the Ministry of Fertilizers for approval, the same is yet to be approved by GOI, the company expects a favorable decision in this regard. These strengths are partially offset by susceptibility to volatility in input prices, thus impacting its operating performance, and vulnerability to regulatory changes in the fertiliser sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in Total operating income by about 10%-15% and maintaining PBILDT margins over 14% on sustained basis.
- Sustained improvement in working capital position, leading to reduced reliance on short term borrowings thereby leading to improvement in interest coverage above 4.00x on a sustained basis

Negative factors

- Weakening of financial profile because of significant increase in working capital requirements and/or large debt-funded capex or acquisitions with overall gearing increasing beyond 0.5x.
- Substantial adverse impact of any regulatory/policy changes.
- 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
- Any adverse outcome resulting from the restructuring scheme of GOI's loan leading to substantial cash flow and thus causing stress on liquidity.

Analytical approach: Consolidated

CARE Ratings has adopted the consolidated approach for analysing the facilities of FACT, also factoring in the substantial ownership by GOI and the support it receives from GOI.

Outlook: Stable

The stable outlook reflects CARE's expectation that the company will continue to derive strength from availability of strong and continued financial support from the Government of India and achieve healthy operating performance in the near term.

Key strengths

Well-established and integrated operations in fertilizers and industrial chemicals; diversified product profile:

FACT is the lead fertilizer supplier of Kerala with its production units located at Kochi and supplying fertilisers to all the South Indian states. The company's operations are marked by high level of vertical integration across both fertilisers division as its ammonia requirement for manufacturing of fertilizers is met through captive production. The company's main business is

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

manufacturing and marketing of fertilisers and caprolactam and engineering project management consultancy (EPMC), which is carried out by its arm FACT Engineering and Design Organization (FEDO), and by FACT Engineering Works (FEW established in 1966) fabrication of equipment, catering to petrochemical, Oil & Gas, industrial/IT/Start-up Incubation Parks/Centers & allied infrastructure sectors.

Established market presence in south India with strong brand value:

FACT started production in 1947 and since then has grown and diversified into a multi-division organization with core activities in manufacture and marketing of fertilizers and petrochemicals, design, engineering & consultancy and in fabrication & erection of industrial equipment and engineering works. Factamfos is one of the company's key products with solid brand value in southern India.

Healthy operating efficiency in FY22 and 9MFY23 which is likely to improve given the capex undertaken:

During FY22, the company has achieved a capacity utilization of 130.49% in production of factamfos and 60.74% in production of ammonium sulphate as compared to 135.98% and 109.19%, respectively during FY21. During 9MFY23, capacity utilisation at FACT's plants for its major products, factamfos, ammonium sulphate (AS) and caprolactum, remained healthy at 125%, 108% and 90%, respectively (FY22: 130%, 61%, 42%). The utilisations for AS and caprolactum were low last financial year, because AS is derived as a co-product from caprolactam operations, which was affected by stabilisation and ammonia shortage issues. The Capex projects worth Rs. 608 crore approved by the Union Cabinet during FY20 is at various stages of implementation and is expected to result in increase in the fertiliser production from 10 lakh MT to 15 Lakh MT and the turnover in tandem with the same. After receiving approval from Department of Fertilisers (DOF), the company restarted caprolactam operation during FY22 and also plans to invest in critical renovation and modernizing schemes for debottlenecking raw material and maximising the existing capacity utilisation. The main capex projects under the consideration of the company include: Capacity expansion of factamfos plant and additional ammonia storage of 10000 MT at Cochin division, phosphoric acid storage tank at Willingdon Island, two sulphuric acid storage facility (5000 MT) at CD and construction of new barge for transportation of ammonia.

Significant growth in total operating income during FY22 and 9MFY23 and healthy profitability margins:

FACT has recorded its highest operational profit and revenue from operations during FY22. The total operating income during FY22 has significantly grown by about 35% as against about 18% during FY21. The performance of the company has improved despite the pandemic-led adverse market scenario in which raw material prices increased significantly in the international markets. FACT produced 963,000 MT fertiliser during FY22, while total fertilizer sales for the year crossed one million MT for two consecutive years. Although PBILDT margins contracted to 13.47% in FY22 (FY21: 16.89%), owing to the rising prices of key raw materials, the PBILDT is likely to remain stable, given the efficiency improvement undertaken by FACT over the short-to medium term coupled with rise in subsidy levels by the Government. FACT reported a significant increase in profit and turnover in 9MFY23 of FY23 with a profit of Rs 447.39 crore and a turnover of Rs 4,949.31 crore vs Rs 119.84 crore and Rs 2,732.25 crore in 9MFY22.

Considerable improvement in financial risk profile:

The financial risk profile of FACT has improved considerably with reduction of debt using the proceeds of the land sale carried out during FY19 and FY20 and increase in cash and cash equivalent. Further with improvement in operational performance during FY20-FY22, there was an improvement in the credit metrics for FACT with Total Debt/PBILDT improving from 3.30x in FY21 to 3.08x in FY22 (including GOI loan), while interest coverage ratio (PBILDT/Interest) increased to 2.4x in FY22 (FY21: 2.25x). The credit metrics are expected to remain comfortable for the projected years, led by a sustained operating performance and low reliance on external debt. At the end of FY22, the company had an external debt from a related entity of Rs. 15.3 crore from Rashtriya Chemicals and Fertilizers Ltd. As a result of healthy profitability coupled with reduction of subsidy receivables, total cash flow from operations improved in FY22 against FY21 and total tangible net worth turned positive to reach Rs. 189.37 crore at the end of FY22 (FY21: negative net worth). Moreover, the management does not expect any outflows towards the outstanding government loan for FY23. The company has a loan of around Rs. 1770 crore at the end of FY22 outstanding from the GOI. Additionally, the interest accrued on the same stood at Rs. 1195 crore. Since March 31, 2021, FACT has not relied either on term loans or working capital bank borrowing, however it continues to have outstanding debt that it owes to the GOI. FACT has requested the GOI to write off the loan interest, convert a portion of the loan into equity and change the balance loan amount to interest-free loan repayable in 10 annual instalments starting from FY23. Although, this proposal is recommended by NITI Aayog and the Ministry of Fertilizers for approval, the same is yet to be approved by GOI, the company expects a favorable decision in this regard. At the given point of time there is no clear direction from GOI wrt the loan extended by it, nevertheless CARE Ratings opines that even if GOI alters the suggestion given by Niti Aayog, still the company has adequate liquidity to repay the entire interest obligation. CARE Ratings continue to closely engage with the management of the company with respect to progress on aforesaid matter and this remains a key rating monitorable.

Ability to maintain profitability margins despite of rise in raw material prices:

During FY22, the main raw material costs have increased considerably, such as Ammonia by 118%, Phosphoric Acid by 81%, Rock Phosphate by 91% and Sulphur by 168%. In tandem with increase in RM costs the company has also increased its selling price by 40%. Especially during Q4FY22, there was major surge in raw materials, however the company was already holding about 4-5 months of inventory which was procured at lower cost, therefore the company was still able to protect its profitability margins during Q4FY22. The finished goods produced from high-cost raw material procured by the company during Q4FY22 would be sold during Q1&Q2FY23. However, GOI in order to support the farmers have increased the Nutrient based subsidy (i.e. the segment in which FACT is operating) by 159%. GOI has increased subsidy for Nitrogen by 389%, Phosphorous by 60%, Potassium by 150% and Sulphur by 192% which augurs well for FACT in protecting its margins.

Key weaknesses

Regulatory Risk:

The profitability and liquidity of fertiliser manufacturers is significantly influenced by the regulations governing various types of fertilisers. Increased cost of production with inadequate subsidy budgeting can impact profitability margins of fertilizer manufacturers.

Agro-climatic Risks:

Large portion of the farming land in India is dependent on the vagaries of the monsoon in the absence of adequate irrigation facilities. Rainfall deficiency or drought can adversely impact sowing level of various crops and in turn the sale of fertilizers.

Increasing trend in the price of Raw Materials:

The company do not have much control on the prices of fertilizer inputs. The prices of almost all fertilizer inputs are showing an unprecedented increase. Prices of regasified liquefied natural gas (RLNG), the feedstock for ammonia has almost doubled during the year FY22 as compared to previous year. The delay in connecting Cochin terminal to National Grid is also adversely affected the availability and supply of RLNG at reduced rate. However, the company has signed an agreement with Petronet LNG Ltd. and GAIL, BPCL and IOCL for supply of RLNG, assuring unhindered supply of key raw material, which also helped the company in maximizing fertilizer production over the past three years.

Liquidity: Adequate

The liquidity of FACT remains adequate in meeting its working capital requirements and Capex requirements. Apart from debt from GOI, the company does not have any external debt from Banks.

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At the given point of time there is no clear direction from GOI wrt the loan extended by it, nevertheless CARE Ratings opines that even if GOI alters the suggestion given by Niti Aayog (which is in final stages of approval), still the company has adequate liquidity to repay the entire interest obligation. With realization of subsidies on time, the company has liquid cash and bank balances of more than Rs. 1600 crore and its fund based and non-fund based sanctioned limits remains almost unutilized thus providing adequate cushion during exigency. The Capex of the company is modular in nature and can be comfortably met through yearly cash accruals generated from operations.

Environment, social, and governance risks:

The major risk factors in terms of ESG for fertilizer companies are environmental factors like emissions, high usage of water etc. Governance remains a universal factor affecting companies across all business sectors alike. Some of the ESG measures taken by the company include:

Environment:

The company has been implementing several sustainable development activities on priority. FACT Cochin Division is having 10 KW Solar unit and is planning for 6 MW solar energy project to increase sustainable energy input. The company has effluent treatment plants, and the emissions are within the permissible limits stipulated by Central Pollution Control Board /State Pollution Control Board. Effluent generated during the fertiliser production process is recycled to the maximum extent possible and this reduces the effluent discharge and raw water consumption to minimum.

Social:

FACT has a well-structured Corporate Social Responsibility policy. The CSR funds are mainly used in Health, Education and Rural Development. Some of its efforts include establishing medical oxygen plants in Kerala and Uttar Pradesh, distributing tablet computers to students etc.

Governance:

Being a public sector company, promoted by the GOI, its management operates under the well qualified officers and there are government nominee directors on the board of directors and have track record of managing large public sector undertakings.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Fertilizer](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

[Short Term Instruments](#)

About the company and industry**Industry Classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Fertilizers & Agrochemicals	Fertilizers

Incorporated in 1943, The Fertilisers and Chemicals Travancore Limited (FACT) is a government-owned-fertiliser and chemical manufacturer under the ownership of Ministry of Chemicals and Fertilizers, Government of India (GOI). The company manufactures and markets fertilisers and petrochemicals with basic interest in engineering consultancy and fabrication and erection of industrial equipment. Major products include complex fertilisers, ammonium sulphate and caprolactam. The company also produces intermediates, including ammonia and, sulphuric and phosphoric acid. FACT is based in Kochi, Kerala and has 2 main production units – Udyogamandal Complex (UC) at Eloor, Udyogamandal and Cochin Division (CD) at Ambalamedu

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	3,270.67	4,424.80	4949.31
PBILDT	552.35	596.23	753.69
PAT	351.98	353.28	448.63
Overall gearing (times)	-15.78	16.08	NA
Interest coverage (times)	2.25	2.44	4.05

A: Audited; UA: Unaudited; NA: Not available; Note: The above results are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

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
Non-fund-based - LT/ ST-BG/LC		-	-	-	735.00	CARE A-; Stable / CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	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	Non-fund-based - LT/ ST-BG/LC	LT/ST*	735.00	CARE A-; Stable / CARE A2	1)CARE A-; Stable / CARE A2 (19-Jul-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: 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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