CareEdge RATINGS

Rashtriya Chemicals and Fertilizers Limited

October 19, 2023

Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper	3,000.00	CARE A1+	Reaffirmed

Details of instruments in Annexure-1.

Rationale and key rating drivers

The rating assigned to the commercial paper (CP) 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 of 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 and further efforts for improvement of the same to being in line with the GoI-prescribed norms. The rating also takes into account significant improvement during FY22 and FY23 (refers to the period from April 1 to March 31) largely on the back of increase in the subsidy rates by the GoI and healthy realisations in the industrial chemicals division. The rating also draws strength from its comfortable leverage and strong liquidity arising from no subsidy backlogs.

The rating, however, continues to be partially tempered by its presence in the regulated fertiliser industry as well as the volatile raw material prices with high reliance on subsidy budget of the GoI, which can potentially result in an elongation of the operating cycle. The rating is also constrained by the fluctuations in forex rates, cyclicality associated with industrial chemicals and its large-size capex plans. This, along with significant investments planned in projects taken up in joint ventures (JVs) which are proposed to be largely debt funded, also constrain the ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable.

Negative factors

- 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 4x on a sustained basis.
- Significant increase in subsidy receivables adversely impacting its liquidity on a sustained basis.

Analytical approach: Consolidated

RCF has commitment to infuse equity in its, JV, namely, Talcher Fertilizers Ltd. and also 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. The list of companies consolidated has been placed in **Annexure-6**.

Outlook: Not applicable

Detailed description of the key rating drivers:

Key strengths

Established position 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

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

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 nearly 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 5.70 and 6.61 giga calorie (Gcal)/ metric tonne (MT) against set energy norms of 6.20 and 6.50 Gcal/MT, respectively, in FY23. Similarly, during Q1FY24, the energy-consumption levels remained at 5.87 Gcal/MT and 6.62 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 is further likely to reduce energy consumption. CARE Ratings expects that 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.

Substantial improvement in the operational performance during FY23

The total operating income (TOI) of RCF increased significantly by more than 60% on a y-o-y basis in FY23, owing to higher realisations in industrial products, significant increase in volumes in the trading segment, healthy demand prospects and increase in subsidy rates by the government. During FY23, on the back of rise in the finished goods prices and sharp rise in demand coupled with supply side constrains, sales of industrial products segment witnessed a 40% y-o-y growth with a healthy operating margin of around 25%. Furthermore, with the aid of increase in subsidy rates against high raw material prices and healthy fertilizer demand, the fertilizer segment also witnessed substantial growth.

Despite some moderation in its profitability margins, its cash accruals for FY23 stood at ₹1,200 crore vis-à-vis ₹877 crore in FY22. However, the performance of the company moderated during Q1FY24 marked by TOI of ₹4,043 crore (Q1FY23: ₹4,957 crore) with a PBILDT margin of 4.00% (Q1FY23: 9.97%) largely due to softening of the prices of fertilizers and industrial products resulting in decrease in subsidy rates as well as planned shutdown of its units for maintenance. Going forward, CARE Ratings expects the revenue from operations and profitability to moderate in FY24 as compared with FY23 levels.

Comfortable capital structure and debt coverage indicators

On the back of timely receipt of its subsidy dues along-with improved operating performance, capital structure of RCF improved marked by an overall gearing of 0.41x as on March 31, 2023 vis-à-vis 0.77x as on March 31, 2022. Also, its debt coverage indicators marked by total debt/PBILD improved to 1.29x for FY23 vis-à-vis 3.10x for FY22. Going forward, with adequate subsidy budget for FY24, CARE Ratings expects its capital structure and debt coverage indicators to be maintained by end-FY24.

Liquidity: Strong

Strong liquidity of RCF is characterised by sufficient cushion in its cash accruals vis-à-vis its term debt repayment obligations for FY24. The utilisation of its fund-based bank limits stood moderate at around 26% for the 12 months ended July 2023 and its CP limit of ₹3,000 crore remain unutilised since April 2022. The current ratio of 1.56x as on March 31, 2023, also supports the liquidity position of RCF. Subsidy receivables which was outstanding at ₹2,097 crore as on March 31, 2023, significantly reduced to around ₹125 crore as on August 31, 2023, further supporting its liquidity. 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 weaknesses

Regulated nature of the fertiliser industry and inherent delays associated with the release of the subsidy from the GoI

The profitability of fertiliser manufacturers is influenced by the regulations governing various types of fertilisers, wherein the government controls the fertiliser prices and provides subsidies. The quantum of subsidy receivables and delays associated with the receipt of the same inherently impacts the liquidity of the fertiliser industry, albeit differs with the type of fertilizer. With release of large amount of subsidy payments in FY21, subsidy receivables have declined significantly leading to significant decline in debt level of the fertilizer companies. Also, with the sharp increase in raw material prices witnessed in FY22 and FY23, government increased the subsidy budget allocation and has been regularly releasing the subsidy payments thereon. In the Union Budget for FY23, the GoI had initially provided for a total fertilizer subsidy of ₹1.05 lakh crore, which was subsequently enhanced by another ₹1.10 lakh crore in May 2022 looking at the elevated prices of key raw materials and natural gas, thereby taking the total fertilizer subsidy budget for FY23 to an all-time high of ₹2.15 lakh crore. Subsequently with moderation in raw material prices during current year, the government has decreased subsidy budget allocation in FY24 to ₹1.75 lakh crore. The shortfall in the subsidy budget amid the volatile raw material prices may lead companies to resort to higher short-term borrowings to fund extended subsidy receivables. Regular intervention by the government to increase the subsidy budget, NPK nutrient rates, and minimum selling prices (MSP) help the sector to work in a regulated manner. The government is also planning to implement the second phase of Direct Benefit Transfer (DBT) and is planning to explore the option of directly transferring the subsidy to the farmers' accounts, which can be beneficial for the fertilizer companies. However, it will have a substantial burden on the government finances, and accordingly, the timeline for rollout of the second phase of DBT is not yet clear.

Cyclicality in industrial chemical business
RCF manufactures around 20 industrial chemicals which contribute around 15%-18% to its TOI. The chemicals manufactured by RCF have diverse industrial applications 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 reported significant improvement in its PBIT margins during FY22 and FY23. However, owing to softening of the finished goods prices, the PBIT margin from this segment declined to around 15% during Q1FY24.

Large-size debt-funded capex over the medium term and planned investments in JVs
RCF has planned total own capex (around ₹1,617 crore) and investment in JVs (around ₹379 crore) for around ₹1,996 crore over the next three years ending FY26 which is envisaged to be funded by term debt of ₹1,480 crore and balance from internal accruals. The envisaged capex pertains towards improvement in energy efficiencies of both its plants, Nano Urea project at Trombay, Storage tanks of Ammonia at Thal and Trombay, Zero liquid discharge plant at Thal and other renewals and revamp schemes.
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-FY23, ₹805 crore is already infused by RCF. 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 National Fertilizers Ltd. (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.

Environment, social, and governance (ESG) risks

Particulars	Risk factors
Environmental	RCF has also implemented various projects for improving energy efficiency including commissioning of gas turbine generator with heat recovery system at Trombay and Thal unit and revamping of CO_2 compressor and turbine at Thal unit. 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. The green power generated by solar plants replaces the conventional power generated through burning of fossil fuels thereby leading to reduction in overall Greenhouse gas emissions.
Social	As part of its initiatives under corporate social responsibility (CSR), RCF has undertaken several projects in the areas of rural development, promoting health care, nutrition and education aimed for the benefit of society. The company incurred ₹11.93 crore as a part of CSR expenses during FY23 (FY22: ₹6.98 crore.)
Governance	The company ensures compliance with the best corporate governance practices as laid down by the SEBI (LODR) Regulations, 2015. RCF's governance structure is characterised by 75% ownership of GoI, comprising four independent directors of the total seven directors, strong investor grievance redressal, and extensive disclosures.

Applicable criteria

[CARE's policy on default recognition]
[Rating Methodology - Consolidation]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Criteria on assigning Rating Outlook and Credit Watch to ratings]
[Rating Methodology - Short Term Instruments]
[Rating Methodology - Fertilizer]
[Rating Methodology - Manufacturing Companies]

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Fertilizers & Agrochemicals	Fertilizers

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 has been awarded ''Navratna"status in August 2023. It 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. Apart from manufacturing of fertilizer, RCF is also engaged in the 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) & nitrogen, phosphorus and potassium (NPK) fertilizers.

Brief Financials (₹ crore) - Consolidated	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	12,812.17	21,451.54	4,042.95
PBILDT	961.75	1,457.90	161.91
PAT	702.39	966.31	67.79
Overall gearing (times)	0.77	0.41	NA
Interest coverage (times)	7.41	6.22	4.12

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 last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Please refer Annexure-4

Lender details: Please refer 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
Commercial paper-Commercial paper (Standalone)	-	-	-	7-365 days	3000.00	CARE A1+

No CP was outstanding as on October 09, 2023

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 2023-2024	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
1	Commercial paper-Commercial paper (Standalone)	ST	3000.00	CARE A1+	-	1)CARE A1+ (20-Oct-22)	1)CARE A1+ (26-Oct-21)	1)CARE A1+ (30-Oct-20)

Annexure-3: Detailed explanation of covenants of the rated instruments: Not applicable.

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities getting consolidated with RCF

Sr. No.	Name of the Instrument	% holding of RCF as on March 31, 2023
1	FACT-RCF Building Products Ltd.	50.00
2	Urvarak Videsh Ltd.	33.33
3	Talcher Fertilizers Ltd.	33.33

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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