Madras Fertilizers Limited (Revised)

December 13, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	350.00	CARE BB+; Stable	Reaffirmed
Short-term bank facilities	2.80	CARE A4+	Assigned
Short-term bank facilities	395.00	CARE A4+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Madras Fertilizers Ltd. (MFL) continue to be constrained by the long-standing delays in servicing of Government of India (GOI) loan along-with uncertainty associated with restructuring of the same, weak capital structure marked by negative net-worth base on the back of past losses, exposure to highly regulated industry, high dependence on subsidy from GOI and qualified opinion of statutory auditors in its audit report.

The ratings, however, continue to derive strength from its established position as a urea manufacturer in South India with locational advantage and continued growth in its revenue led by increase in demand of fertilizers coupled with higher subsidy rates. The ratings also consider the continued improvement in financial performance in FY23 (refers to the period from April 1 to March 31) post migration of its feedstock from naphtha to Regassified Liquefied Natural Gas (RLNG), albeit moderation witnessed in H1FY24. The ratings also take cognizance of reduction in MFL's subsidy receivable levels, which improved the liquidity substantially and reduced the reliance on external borrowings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of restructuring of GOI loan with waiver of accumulated interest on the same.
- Sustained availability of natural gas under its sourcing arrangement.
- Accretion of healthy cash accruals and reversal of accumulated interest on GoI loan resulting in positive net-worth base.

Negative factors

- Adverse outcome of restructuring GOI loan with no/lower waiver of accumulated interest on the said loan.
- Sustained pressure on its profitability margin resulting in PBILDT margin remaining less than 5%.
- Significant increase in subsidy receivables adversely impacting its liquidity.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that MFL will benefit from the energy efficiency improvement processes implemented by the company, and the transition to RLNG will contribute to sustained profitability margins.

Detailed description of the key rating drivers:

Key weaknesses

Weak financial profile marked by negative net-worth and long-standing delays w.r.to repayment of GOI loan: On the back of past cash losses from its operations, its net-worth has been eroded leading to negative net-worth as on March 31, 2023. The company had availed loans from GOI for revamp of its plant, other major capital expenditure and working capital needs during the period of 2003-2012. However, the company defaulted in repayment of the said loans due to cash losses from its operations and has outstanding principal amount of ₹554.25 crore and interest accrued on the same of ₹848.27 crore as on September 30, 2023.

MFL has submitted a financial restructuring proposal to the GOI for the waiver of the accrued interest and conversion of the outstanding principal amount of ₹554.25 crore as a nil interest rate loan with its repayment over a period of 15 years. Any unfavourable outcome of the financial restructuring proposal shall remain a key monitorable.

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

Exposure to highly regulated nature of fertiliser industry and agro-climatic risks: Though, the fertiliser industry is strategically important for the Indian government, it is a highly controlled industry and the profit margins as well as liquidity largely hinge on government regulations. While the complex fertilizers have been decontrolled with prices being governed by the market dynamics, urea has been kept out of the Nutrient Based Subsidy (NBS) scheme with its Maximum Retail Price (MRP) being decided by the government. Accordingly, profitability of urea manufacturers is vulnerable to timely receipt of subsidy from GoI. Furthermore, financial health of the fertilizer manufacturers largely depends on the sowing season, vagaries of rainfall, subsidy budget of GoI and the existing channel inventory level.

Qualified opinion from statutory auditor in its audit report: In its audit report for FY23, the auditor has given qualified opinion on Internal Financials Controls over Financial Reporting regarding inadequate controls on the GST Input Tax Credit eligible claim and reconciliation, coverage, procedures and frequency of physical verification of inventories, and scope and coverage of internal audit. The management is taking various steps towards strengthening its internal financial control. The auditor's opinion was, however, not modified in respect of these matters and the auditor has given an unqualified opinion on the financial statements.
Furthermore, the Composition of the Board of Directors are not in accordance with the provisions of the Securities and Exchange Board of India (SEBI) (LODR) Regulations. However, being a government company, it has taken up the matter with the Department of Fertilizers, Government of India to appoint sufficient number of Independent Directors to comply with the SEBI (LODR) Regulations.

Liquidity: Stretched

MFL's liquidity position is stretched marked by the inability of the company to generate sufficient cash accruals for meeting its debt repayment obligations (including GOI loan). The proposal for restructuring of the same has been submitted to the GOI. Apart from this loan, the company has no long-term debt repayment obligations. Moreover, the company has generated cash accruals of ₹196.54 crore during FY23 (FY22: ₹176.73 crore) and had ₹467 crore in cash and cash equivalents on September 30, 2023, while it incurred cash loss of ₹25.04 crore in H1FY24. Furthermore, the average utilization of its fund-based working capital limits remained low at 37% for the past 12 months ended October 2023 on the back of timely disbursement of subsidy dues by GoI.

Key strengths

Well-established operations of MFL along with locational advantage and significant presence in South India: MFL is one of the largest urea manufacturers in South India, having a far and wide reach of marketing network throughout the southern states. MFL has an established market presence and rich experience of over five decades in the manufacturing of ammonia, urea and complex fertilizers. MFL is also engaged in the manufacturing of various bio-fertilizers and marketing of eco-friendly organic fertilizers as well as neem pesticides under its brand name. MFL had a significant market share of 28% for urea sales in Tamil Nadu and around 8% in entire South India during FY23. MFL also enjoys a leadership position with around 50% market share in the sales of organic manure in the state of Tamil Nadu.
MFL has a strategic location as it is in the close vicinity of the Ennore port in Tamil Nadu from where R-LNG is being imported and supplied to MFL.

Conversion of feedstock from naphtha to R-LNG resulting in energy efficiencies: As mandated by Department of Fertilizers, GOI, the company has successfully shifted its feedstock requirement to R-LNG from Naphtha in FY20. This shift was delayed due to non-availability of gas primarily owing to lack of pipeline infrastructure in the region. Thereafter, Ennore port's R-LNG terminal, set up by Indian Oil Corporation Limited (IOCL) was commissioned in March 2019 and hence MFL was able to switch to RLNG as its feedstock. The plant can now work on dual feed of R-LNG and naphtha. The requirement for R-LNG has been tied-up with IOCL for a tenure of 15 years i.e. till FY34.

Significant improvement in operating performance; expected to sustain going forward: MFL's total operating income (TOI) increased by 50% in FY23 compared to FY22 primarily on account of increase in sales volume led by higher usage of fertilizers as well as increase in subsidy rates by GOI to commensurate with high raw material prices. The operating profitability has also improved substantially mainly due to migration to RLNG from Naphtha as a feedstock as the same resulted in high energy efficiencies as well as reduction in cost of production. However, during H1FY24, the company saw a decline in its operating income due to the shortage of water supply and plant shutdown of 42 days for maintenance, which resulted in lower production and net loss of ₹31.05 crore. However, post completion of the maintenance activities, the plant efficiency is expected to improve with better energy efficiency; thereby resulting in improved financial performance.

Applicable criteria

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Fertilizer](#)
[Manufacturing Companies](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

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

MFL is held by GoI (59.50%), Naftiran Intertrade Co Ltd; an affiliate of National Iranian Oil Company (25.77%) and balance with the public (14.73%). MFL is engaged in the manufacturing of Ammonia (3,46,500 MT), Urea (4,86,750 MT) and complex fertilizers (2,80,000 MT). MFL is also engaged in manufacturing of Bio-fertilizers and trading of eco-friendly agro chemicals, organic manure and city compost under the brand name 'Vijay'. The company's plant is located on 329 acres of freehold land at Manali, Chennai.

Brief Financials of MFL - Standalone (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	2,302.16	3,447.09	926.65
PBILDT	244.00	332.45	7.22
PAT	162.05	185.33	-31.05
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	2.45	3.76	0.22

A: Audited UA: Unaudited; 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 facilities is given in Annexure-3

Complexity level of various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facilities	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	350.00	CARE BB+; Stable
Non-fund-based - ST-Credit exposure limit	-	-	-	2.80	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	395.00	CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	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	Fund-based - LT-Cash credit	LT	350.00	CARE BB+; Stable	-	1)CARE BB+; Stable (23-Feb-23)	-	-
2	Non-fund-based - ST-Letter of credit	ST	395.00	CARE A4+	-	1)CARE A4+ (23-Feb-23)	-	-
3	Non-fund-based - ST-Credit exposure limit	ST	2.80	CARE A4+				

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure-4: Complexity level of the various facilities rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-Credit exposure limit	Simple
3	Non-fund-based - ST-Letter of credit	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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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