

The Fertilisers and Chemicals Travancore Limited

December 7, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term/Short-term bank facilities	735.00	CARE A-; Stable/CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of The Fertilisers and Chemicals Travancore Limited (FACT) derives strength from the continued financial support from the Government of India (GoI; holding 90% stake in FACT). The ratings also reflect FACT's established market position in South India. Moreover, the company has reported considerable improvement in its total operating income (TOI) during FY23, supported by an increase in government subsidy.

The ratings also factor in FACT's ability to maintain its profitability margins, despite the increase in raw material prices. The company has well-established and integrated operations in fertilisers and industrial chemicals and has tie-ups with oil companies for the supply of regasified liquefied natural gas (RLNG), which provides visibility of the 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 borrowings, however, it continues to have outstanding debt that it owes to the GoI. FACT has requested the GoI to restructure the entire loan, including the accumulated interest. The proposal is yet to be approved by the GoI.

These strengths are partially offset by the susceptibility to volatility in input prices, thus impacting its operating performance and the vulnerability to regulatory changes in the fertiliser sector. CARE Ratings Limited (CARE Ratings) observes that even if the government demands the full principal payment of ₹1,000 crore, the company has an adequate cash balance (₹1,245 crore as on March 31, 2023) to fulfil the same. The strong liquidity and adequate yearly gross cash accruals (GCA) of ₹600-800 crore provides comfort.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in TOI by about 10-15% and maintenance of the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin over 14% on a sustained basis.
- Sustained improvement in the working capital position, leading to reduced reliance on short-term borrowings, thereby leading to an improvement in the interest coverage above 4.00x on a sustained basis.

Negative factors

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

Analytical approach: Consolidated

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

Outlook: Stable

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

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

Detailed description of the key rating drivers

Key strengths

Well-established and integrated operations; diversified product profile

FACT is one of the leading fertiliser suppliers in Kerala, with its production units located at Kochi, and it supplies fertilisers to all the South Indian states. The company's operations are marked by a high level of vertical integration across both the fertilisers divisions, as its ammonia requirement for manufacturing of fertilisers is met through captive production. The company's main business is the manufacturing and marketing of fertilisers and caprolactam and engineering project management consultancy (EPMC), which are carried out by its arms – FACT Engineering and Design Organization (FEDO) and FACT Engineering Works (FEW; established in 1966) for the fabrication of equipment. These two arms cater to the petrochemical, oil and gas, industrial and Information Technology (IT), start-up incubation parks and centres, and 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 organisation with core activities in the manufacturing and marketing of fertilisers and petrochemicals, design, engineering and consultancy, and in the fabrication and erection of industrial equipment and engineering works. Factamfos is one of the company's key products with a solid brand value in southern India.

Improved operating efficiency in FY23

During FY23, the company has achieved a capacity utilisation of 140% in the production of Factamfos and 109% in the production of ammonium sulphate (AS) as compared to 125% and 61%, respectively, during FY22. The production of AS was through the caprolactam route and the annual production of 244,732 metric tonne (MT) of AS during the year is the all-time highest. The utilisation for AS was low in FY22, because AS is derived as a co-product from caprolactam operations, which was affected by stabilisation and ammonia shortage issues. After receiving approval from the Department of Fertilisers (DOF), the company restarted caprolactam operations during FY22 and also plans to invest in critical renovation and modernising schemes for debottlenecking raw materials and maximising the existing capacity utilisation. Capex projects worth ₹1,040 crore are at various stages of implementation and are expected to result in an increase in the fertiliser production from 10 lakh MT to 15 lakh MT and the turnover in tandem with the same. The main capex projects under the consideration of the company include a new ammonia barge for transporting ammonia and two additional sulphuric acid storage tanks.

Significant growth in TOI during FY23, albeit moderation in H1FY24

FACT has recorded its highest operational profit and revenue from operations during FY23. The main reason for the same is the increase in government subsidy, owing to hike in international prices. The subsidy from the GoI represents around one-third of FACT's TOI. The subsidy has for two main products – Factamfos (74% of FY23 sales) and AS (15% of FY23 sales), increased more than 60% in FY23 as compared to the FY22 levels. The production of AS was through the caprolactam route and the annual production of 244,732 MT of AS during the year is the all-time highest production through the caprolactam route. The PBILDT margin contracted to 12.18% in FY23 (FY22: 13.47%) owing to the rising prices of key raw materials. In H1FY24, FACT reported sales of ₹2,991 crore as opposed to ₹3,275 crore in H1FY23, owing to lower subsidies. Given that international fertiliser prices have fallen from their peak levels in FY23, the nutrient-based subsidies for FY24, as notified by the GoI, have been lower compared to the FY23 levels. CARE Ratings expects the FY24 revenue of FACT to moderate by 5-7%.

Comfortable financial risk profile

The financial risk profile of FACT has improved considerably with a reduction of debt using the proceeds of the land sale carried out during FY19 and FY20 and increase in cash and cash equivalents (₹1,245 crores as on March 31, 2023). 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 FY23, the company had an external debt from a related entity of ₹5.1 crore from Rashtriya Chemicals and Fertilizers Limited. As a result of the healthy profitability, the total cash flow from operations improved in FY23 against FY22 and the total tangible net worth (TNW) turned positive in FY22 and increased further to ₹1,273.44 crore at the end of FY23 (FY21: negative net worth). At the given point of time, there is no clear direction from the GoI wrt the loan extended by it, nevertheless, CARE Ratings opines that even if the GoI alters the restructuring plan, the company still has adequate liquidity to repay the entire principal obligation. CARE Ratings will continue to closely engage with the management of the company with respect to the progress on the aforementioned matter and this remains a key rating monitorable. Any adverse outcome will have a significant impact on the credit metrics and liquidity of the company.

Ability to maintain profitability margins despite rise in raw material prices

The cost of raw material constitutes the majority of the cost of sales (around 74%) and the same witnessed a sharp increase in FY23. During FY23, the costs of the main raw materials have increased considerably, such as that of regassified liquid natural gas by 96%, phosphoric acid by 22%, rock phosphate by 95%, and sulphur by 100%. The increase in subsidies was able to cover

the increase in raw material costs and maintain profitability at the 12-13% level. The costs have been declining from Q1FY24. Given that the subsidy has also declined, CARE Ratings expects a slight impact on the profitability of FACT, thus envisaging the company to report the PBILDT margin in the range of 10-12% in FY24.

Key weaknesses

Regulatory risk

The profitability and liquidity of fertiliser manufacturers is significantly influenced by the regulations governing various types of fertilisers. The subsidy received from the GoI represents around one-third of FACT's TOI. Hence, any changes in the same will materially affect FACT's revenues and cash flows. The increased cost of production with inadequate subsidy budgeting can impact the profitability margins of fertiliser manufacturers.

Agro-climatic risks

A 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 the sowing level of various crops, and in turn, the sale of fertilisers.

Volatile raw material prices

The company does not have much control on the prices of fertiliser inputs. The prices of almost all fertiliser inputs like ammonia, sulphuric acid, phosphoric acid, natural gas, etc, peaked during FY23 and has started to decline in H1FY24. The prices of regasified liquefied natural gas and the feedstock for ammonia has almost doubled during FY23. However, the company has signed an agreement with Petronet LNG Limited, GAIL, BPCL, and IOCL for the supply of regasified liquefied natural gas, assuring the unhindered supply of key raw materials, which also helped the company maximise its fertiliser production over the past three years. These tie-ups with oil companies for the supply of regasified liquefied natural gas provides visibility of the continued supply of natural gas and other raw materials.

Liquidity: Adequate

The liquidity of FACT remains adequate in meeting its working capital requirements and capex requirements. Apart from debt from the GoI, the company does not have any external debt from banks. Since March 31, 2019, FACT has not relied either on term loans or working capital bank borrowings, however, it continues to have outstanding debt that it owes to the GoI. The company has a loan of around ₹1,770 crore at the end of FY23 outstanding from the GoI. Additionally, the interest accrued on the same stood at around ₹1,434 crore. As mentioned earlier, FACT has submitted a proposal to restructure the GoI loan, which if approved, will result in writing off a portion and repayment of ₹1,000 crore in yearly instalments. Currently, there is no clear direction from the GoI with respect to the loan extended by it; nevertheless, the GCA along with the free cash balance of ₹1,245 crore as on March 31, 2023, is more-than-adequate to repay the entire principal obligation. The non-fund based sanctioned limits remains almost unutilised. The company's existing capex plans is expected to result in an outflow of ₹700-1,000 crore over the next three years and can be comfortably met through yearly cash accruals generated from operations.

The ultimate outcome of the restructuring proposal regarding the GoI will be a key monitorable. Any adverse outcomes will have a significant impact on the credit metrics and liquidity of the company.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

The major risk factors in terms of ESG for fertiliser 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 undertaken by the company include:

Environment: The company has been implementing several sustainable development activities on priority. FACT Cochin Division has a 10-kW solar unit and is planning another 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 the Central Pollution Control Board or 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 are well-qualified officers and there are government nominee directors on its board of directors, who have track record of managing large public sector undertakings.

Applicable criteria

[Policy on default recognition](#)
[Consolidation](#)
[Factoring Linkages Government Support](#)
[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	Fertilisers and agrochemicals	Fertilisers

Incorporated in 1943, FACT is a government-owned-fertiliser and chemical manufacturer under the ownership of the Ministry of Chemicals and Fertilizers, 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, AS, and caprolactam. The company also produces intermediates, including ammonia and sulphuric and phosphoric acid. FACT is based in Kochi, Kerala, and has two main production units – Udyogamandal Complex (UC) at Eloor, Udyogamandal, and Cochin Division (CD) at Ambalamedu.

Brief Financials - Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	4,520	6,198	2991
PBILDT	691	755	306
PAT	346	613	177
Overall gearing (times)	2.04	2.57	NA
Interest coverage (times)	2.83	3.05	2.47

A: Audited; UA: Unaudited; NA: Not Available. Note: The above results are the 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

List of subsidiaries/ JVs considered for consolidation: Annexure-6

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 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	Non-fund-based - LT/ ST-BG/LC	LT/ST*	735.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (31-Mar-23) 2)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 detailsTo view the lender wise details of bank facilities please [click here](#)**Annexure-6: List of subsidiaries/JVs considered for consolidation**

Name of companies/ Entities	% of holding as of March 31,2023
FACT RCF Building Products Ltd. (Joint Venture)	50%

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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Disclaimer:

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