

## Mangalore Chemicals And Fertilisers Limited

January 08, 2024

| Facilities/Instruments                 | Amount (₹ crore)                     | Rating <sup>1</sup>        | Rating Action |
|--|--------------------------------------|----------------------------|---------------|
| Long Term Bank Facilities              | 411.96<br>(Reduced from 465.50)      | CARE A-; Stable            | Reaffirmed    |
| Long Term / Short Term Bank Facilities | 2,588.04<br>(Enhanced from 2,534.50) | CARE A-; Stable / CARE A2+ | Reaffirmed    |

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Mangalore Chemicals and Fertilisers Limited (MCFL) derives strength from MCFL's long track record of operations in fertilizers industry, benefits exuding from being a part of reputed & diversified Adventz group and company's established presence in South Indian region with widespread customer base.

The ratings also take cognizance of the improving operating efficiency of the company on the back of implementation of energy improvement program (EIP) resulting into increased energy gain, aiding to the profitability and cash accruals during the year FY23 (refers to period April 01 to March 31) and H1FY24 (refers to period April 01 to September 30), which is expected to improve further in FY24 being the complete full year post implementation of EIP. The ratings also consider in the faster release of subsidy by the government in last couple of years leading to reduction in the outstanding subsidy receivables of the company and thereby reducing its reliance on the working capital borrowings.

These rating strengths, however, remain constrained with leveraged albeit improving capital structure of MCFL, presence in highly regulated fertilizers industry with high dependence on subsidy and exposure towards agro-climatic conditions impacting rainfall & sowing practices and volatility in raw material prices. CARE expects improvement in overall business and financial risk profile of the company going forward on the basis of increasing energy gains, absolute operating profitability, cash accruals and ability of the company to efficiently manage its working capital requirements basis timely receipt of subsidies accrued.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in liquidity position along with lower working capital borrowings leading to sustained improvement in credit metrics with net debt to PBILDIT below 1.10 times.
- Substantial positive impact of any regulatory/policy change on company's operational risk profile.

#### Negative factors

- Any increase in the collection period leading to elongation in the operating cycle of more than 180 days on a sustained basis.
- Major debt-funded capex or increase in working capital borrowings to fund large subsidy receivables leading to Net debt to PBILDIT deteriorating above 3.5x on sustained basis.
- Any adverse changes in the regulations governing the fertiliser industry adversely impacting the operational risk profile of the company.

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects CARE Rating's opinion of sustained growth in revenue, profitability and cash accruals of the company leading to improvement in capital structure and debt coverage indicators of MCFL.

### Detailed description of the key rating drivers:

#### Key strengths

##### Part of diversified group with long track record of operations

MCFL commenced production of Ammonia & Urea in 1976, set up Ammonium bicarbonate plant in 1982, Di-ammonium phosphate and captive power plants in 1986, Sulphonated Naphthalene Formaldehyde plant in 2010 and Specialty Fertilizers plant in 2011. MCFL is a part of the Adventz group which has interests in agri-inputs, engineering, infrastructure, real estate, consumer durables and services sectors. MCFL was earlier a UB group company, however, in May 2015, Zuari group acquired an additional 36.56% stake in MCFL over and above its earlier 16.47% stake to become the majority stakeholder in the company with 54.03% stake at present. As part of the Adventz group, MCFL is being benefitting from centralized procurement of key raw materials at group level leading to the benefit of economies of scale, a strong marketing and distribution network, resulting in better cost efficiencies, besides the savings in fixed overheads as a result of integrated operations with the other group companies which are in similar line of business. The parent company of MCFL, Zuari Agro Chemicals limited (ZACL), is the flagship company of the group and also acts as a holding company for the other group companies engaged in manufacturing of fertilizers while the non-fertilizers business are under another holding company, Zuari Global Limited (ZGL). Further, ZACL had raised funds in past by monetization

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

of its assets (Goa Plant) to its group company Paradeep Phosphate Limited. The sale of these assets and the resultant fund-raising helped ZACL to deleverage its balance sheet. However, MCFL is not dependent for financial support from its promoters as seen in the past since its acquisition and is an independent operating company and is only being benefitting by leveraging the group operational and business linkages with better reach to market.

#### **Established position in Southern India and wide customer base**

MCFL is engaged in manufacturing of Nitrogenous and Phosphatic fertilizers and is the leading manufacturer of fertilizers in the state of Karnataka. About 70% of the company's products are sold in the state of Karnataka, which meets about 10-11% of the needs of the farmers of the state. MCFL also maintains good market share in Kerala and a modest share in states including Tamil Nadu, Andhra Pradesh, Telangana and Maharashtra. MCFL also has a wide customer base and the top 10 customers continue to account for less than 10% of the total operating income (FY22: 7% of total TOI).

#### **Growing revenue and profitability in FY23 and H1FY24 with improving operating efficiency post EIP implementation**

After successful testing and commissioning, urea manufacturing with the feedstock of natural gas had started since December 12, 2020 and FY22 was the first full year when MCFL operated on Natural Gas. Further, MCFL has completed its EIP much in advance and its current energy consumption stands at 5.88 GCal/MT for FY23 from earlier consumption of 6.30Gcal/MT. This leads to incremental accrual benefits on account of energy savings which has also increased from 1.02Gcal/MT in FY22 to 1.48 Gcal/MT in FY23 and expected to increase to 1.86 over next 1 year. MCFL has produced 1,00,000 MT less Urea than its assessed capacity in FY23 due to loss of production during the interim period when plant was shutdown for almost 1.5 months in Q2FY23 for implementation of EIP. Despite the lower production, MCFL has achieved higher operating profit in FY23 owing to reduced energy consumption on account of EIP. During FY23, MCFL reported growth of 25.76% in total operating income to Rs. 3,641.52 crores over FY22 with PBILDT margin of 8.64% (PY: 7.45%) on account of increased energy gains from 1.02 Gcal/MT to 1.48 Gcal/MT in FY23.

Further, MCFL has achieved revenue of Rs. 2,368.44 crores in H1FY24 with PBILDT margin of 11.64%, however H2FY24 is expected to remain slightly subdued on account of reduced raw material and finished products prices whereas with increased efficiency and rate of production, the company is expecting to achieve higher sales volumes of urea and other complex fertilizers going forward which shall remain key monitorable to be able to achieve the envisaged accruals.

#### **Key weaknesses**

##### **Leveraged albeit improving capital structure**

Capital structure of MCFL remains leveraged mainly on account of higher working capital requirements, however improvement demonstrated on the back of improving profitability and timely receipt of subsidy. The overall gearing of the company remained on a higher side albeit improved from 2.53x as on March 31, 2022 to 1.92x as on March 31, 2023 on account of increased net worth base from Rs. 681.99 crores as on March 31, 2022 to Rs. 802.12 crores owing to higher profits during the year and lower working capital utilization as the subsidies were received in a timely manner and the additional subsidy payout of Rs. 110,000 crores in May 2022 by the govt, which also acted as a liquidity flush for the fertilizer companies. Accordingly, the debt coverage indicators including TD/PBILDT and TD/GCA also improved from 7.99 times and 10.67 times as on March 31, 2022 to 4.90 times and 7.53 times respectively as on March 31, 2023. MCFL also has accumulated Goods and Services Tax (GST) receivable amounting to Rs. 114 crores reported as on March 31, 2023, which remains imperative to provide additional liquidity support to the company in near term.

Going forward, financial risk profile of the company is expected to improve on the basis of improving production efficiency leading to increased absolute profitability and strengthening of the net worth position.

##### **Vulnerability of sales to agro-climatic conditions**

Financial health of fertilizers manufacturers largely depends on the sowing season, vagaries of rainfall, status of subsidy outgo and the existing channel inventory level. 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. MCFL supplies only in India and caters to 6 states including Karnataka and around 70% of the company's products are sold in the state of Karnataka only, followed by Tamil Nadu (11%), Andhra Pradesh (7%) and others including Telangana & Maharashtra.

##### **Exposure towards fluctuations in raw material prices**

MCFL procures the key raw materials including Regassified Liquefied Natural Gas (RLNG), phosphoric acid and ammonia are imported for manufacturing of complex fertilizers. Natural gas supply is secured through mid / long terms contracts. The company also deals in imported fertilizers (i.e., Di-Ammonium Phosphate [DAP] and Muriate of Potash [MOP] besides other fertilizers). From December 2020 company is using Natural Gas (NG) as raw material for production of Urea and also as input for generating power from the Captive Power Plant which is supplied by Gail (India) Limited. Earlier Naptha and Furnace oil was used as feed and fuel which was supplied by Indian Oil Corporation Limited. The raw materials and the traded goods derive their prices from the global crude price while international prices of DAP and MOP etc., are based on the demand and supply, therefore the turnover of the company fluctuates based on the global crude & commodity prices and are also vulnerable to exchange rate movement.

##### **Exposure towards highly regulated industry**

The profitability and liquidity of fertiliser manufacturers is significantly influenced by the regulations governing various types of fertilisers, wherein, the government controls the fertiliser prices and provides subsidies. Given the government's thrust on self-

sufficiency in food grain production, the fertiliser industry is strategic but highly controlled. Hence, players are susceptible to regulatory changes including energy consumption norms.

Fertiliser companies are also susceptible to delays in subsidy payments from the government, leading to high reliance on working capital loans. Any deferment in the disbursement of subsidy on account of under-budgeting and any change in the regulatory scenario remain key rating sensitivity. The government allocated a subsidy of Rs. 1.75 lakh crore for the 2023-24, while the amount is sharply lower than the previous year, the government assured that farmers will remain protected since international fertilizer prices have fallen, which reduces the need for hefty support. The cabinet also approved fresh rates under the nutrient-based subsidy (NBS) scheme for NPK (nitrogen, phosphorus, potassium) fertilizers. The NBS scheme sets fixed subsidies for fertilizers other than urea, depending on their nutritional content. This is expected to keep the working capital position steady and not let any material built-up in the subsidy receivables in fiscal 2024 as it bears a direct correlation with the level of working capital utilization. However, ability of the company to effectively manage its operations in case of declining prices and reduced subsidy would remain a key rating monitorable.

#### **Liquidity: Adequate**

Liquidity is marked by buffer between expected cash accruals of Rs. 217 crores in FY24 against scheduled repayment obligations of Rs. 93.07 crores and further aided through free cash and cash equivalents of Rs. 634 crores as on October 31, 2023 providing cushion to meet its incremental working capital needs over the near term. The operations of the company remain working capital intensive majorly owing to the longer receivables cycle on account of subsidy receivables from the government. But average receivables days of the company moderated to 73 days for FY22 due to timely receipt of subsidy during FY21 and FY22. Normally, suppliers are extending 30 days to 60 days credit against LCs. After that, LCs are paid by converting into Buyers Credit/Suppliers credit/ LC Bill Discounting and this will be repaid within 120 days to 180 days.

Going forward, MCFL is planning to undertake a backward integration plant for sulphuric acid increasing the capacity by 300 TPD from 100 TPD currently at a total outlay of Rs. 240 crores to funded through debt of Rs. 160 crores (sanctioned by Axis Bank- Rs. 75 crores and IndusInd Bank- Res. 85 crores @ 8.75% p.a. and repayable in 5 years post 2 years moratorium) and remaining through internal accruals and is expected to start from May 2025. Thus, any higher than envisaged debt funded capital expenditure which may significantly impact the credit profile or leverage indicators of MCFL shall remain negative from credit perspective.

**Environment, social, and governance (ESG) risks:** Fertiliser manufacturing, particularly urea, has a significant carbon footprint as natural gas is the key raw material for hydrogen which goes into ammonia production and thereafter urea. GoI is expected to provide adequate policy support to the sector if the hydrogen requirement through the green route is mandated by GoI for the sector. Agro-climatic risk remains a key risk for the sector given the fact that a significant portion of the Indian agriculture sector remains dependent on the monsoons and with changing climate patterns which may impact fertiliser offtake. The sector is also socially important, given its role in ensuring food security and rising concerns related to excessive usage of fertilisers and its impact. MCFL has been undertaking its part on the environment, social and governance front as follows:

#### **Environment**

- As an ISO 14001 certified company, many environmental management programs have been implemented to improve the environmental performance of the Company. The Company has changed its Feedstock and Fuel from Naphtha to cleaner Natural Gas which has significantly reduced Sulphur Dioxide emissions. MCFL has achieved zero liquid discharge status in 2010 by upgrading its effluent and sewage treatment plants to recover and reuse the treated waters. The rainwater harvesting system and sewage treatment plants are already installed.
- Fixed Natural Gas leak detectors have been installed in areas of recently converted (Fuel Oil to Natural Gas) burners of Package Boiler and Dryer Combustion chamber in the DAP Plant and Standby auxiliary Boiler (IJT) in Ammonia Plant for early detection and alarm in case of any gas leaks.

#### **Social**

- MCFL continue to make significant contributions in the area of education, rural development, healthcare, sanitation, employability and empowerment, animal welfare and soil health etc., for the underprivileged community living in the villages located near our plant in Mangalore besides their marketing territories.

#### **Governance**

- The company ensures compliance with the best corporate governance practices as laid down by the SEBI (LODR) Regulations, 2015. The Board of Directors of MCFL comprises an optimum combination of Executive (2), Non- Executive (3) and Independent Directors (4).

#### **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](#)

## About the company and industry

### Industry classification

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

Mangalore Chemicals and Fertilisers Limited (MCFL) incorporated in year 1966 is one of the leading manufacturers of chemical fertilizers through its manufacturing facility located at Mangalore West Coast Opposite Mangalore Port with installed capacity of Urea - 3.80 Lakh metric tonne (LMT), DAP & Complex 2.85 LMT and around 70% of the company's products are sold in the state of Karnataka. MCFL is a part of 'Adventz group' with majority stake held by the Zuari Agro Chemicals limited (ZACL, 54.03% holding). The Adventz Group was founded by late Mr. K.K Birla and presently led by Mr. Saroj Kumar Poddar. MCFL was earlier a UB group company, however, in May 2015; Zuari group acquired an additional 36.56% stake in MCFL over and above its earlier 16.47% stake to become the majority stakeholder in the company.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | H1FY24 (UA)   |
|----------------------------|--------------------|--------------------|---------------|
| Total operating income     | 2,895.58           | 3,641.52           | 2,368.44      |
| PBILDT                     | 215.84             | 314.65             | 275.60        |
| PAT                        | 87.86              | 134.66             | 117.00        |
| Overall gearing (times)    | 2.53               | 1.92               | Not Available |
| Interest coverage (times)  | 4.43               | 3.02               | 4.71          |

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

**Complexity level of 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 |
|---------------------------------|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Term Loan       |      | -                             | -               | August 2030                | 411.96                      | CARE A-; Stable                           |
| Fund-based/Non-fund-based-LT/ST |      | -                             | -               | -                          | 2588.04                     | 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       | Fund-based - LT-Term Loan              | LT              | 411.96                       | CARE A-; Stable            | -   | 1)CARE A-; Stable (21-Mar-23)               | 1)CARE BBB+; Stable (23-Dec-21)             | 1)CARE BBB+; Stable (25-Mar-21)<br>2)CARE BBB; Stable (08-Oct-20)                      |
| 2       | Fund-based/Non-fund-based-LT/ST        | LT/ST*          | 2588.04                      | CARE A-; Stable / CARE A2+ | -   | 1)CARE A-; Stable / CARE A2+ (21-Mar-23)    | 1)CARE BBB+; Stable / CARE A3+ (23-Dec-21)  | 1)CARE BBB+; Stable / CARE A3+ (25-Mar-21)<br>2)CARE BBB; Stable / CARE A3 (08-Oct-20) |

\*Long term/Short term.

**Annexure-3: Detailed explanation of 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       | Fund-based - LT-Term Loan       | Simple           |
| 2       | Fund-based/Non-fund-based-LT/ST | 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.

### Contact us

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