

## Indian Potash Limited

March 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	332.50 (Reduced from 847.50)	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	19,865.00 (Enhanced from 18,917.50)	CARE AA-; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	11,900.00 (Reduced from 14,200.00)	CARE A1+	Reaffirmed
Commercial paper (Carved out)*	800.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities and instrument of Indian Potash Limited (IPL) continues to derive strength from its strong market position as one of the largest fertilizer importers in the country, long track record of relationships with international suppliers, and an extensive distribution network. Ratings also factor in IPL's status as one of the state trading agencies, its strategic importance to the government of India (GOI) in meeting country's fertilizer requirements, satisfactory financial risk profile and its financial flexibility with lenders through large credit lines at competitive rates.

However, ratings are constrained by the risks associated with the regulated nature of the fertilizer industry, working capital intensive operations, exposure to volatile commodity prices, and foreign exchange rate fluctuation.

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

#### Positive factors

- Consistently growing scale of operations with product diversification and sustained improvement in profit before interest, lease rentals, depreciation and taxation (PBILDT) margins.
- Strengthening of the credit profile with improving working capital intensity.

#### Negative factors

- Substantially declining scale of operations leading to decreasing margins below 3% on a sustained basis.
- Large debt-funded capital expenditure, delaying subsidy receivables from GOI leading to deteriorating credit profile and liquidity.

### Analytical approach: Consolidated

For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has considered consolidated financials of IPL. As on March 31, 2023, the company has one wholly owned subsidiary, 'IPL Sugars and Biofuels Limited (Formerly known as IPL Sugars and Allied Industries Limited)' and an associate company 'Jordan Phosphate Mines Company' (wherein IPL holds 27.38% stake).

### Outlook: Stable

Stable outlook reflects the company's ability to maintain its market position, which coupled with stable demand scenario shall enable it to sustain its healthy business profile over the medium term.

### Detailed description of the key rating drivers:

#### Key strengths

##### Strong market position in fertilizer business with dominant market share in MOP sales

IPL commands a strong market position and is one of the largest fertilizer distributors in India with highest market share (65% share in terms of volumes in FY23) in sale of Muriate Of Potash (MOP) in the country. IPL also has the second-largest

<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

market share in diammonium phosphate (DAP) fertilizer sales and is an established name in urea and other complex fertilizers. Due to its favourable competitive position and efficiency of operations, IPL holds a strategic importance to the GOI in ensuring timely availability of fertilizers in the country. The company has been assigned as a canalising agent to import urea into the country on behalf of the Ministry of Fertilizers. Apart from the fertilizer business, IPL generates income from its manufacturing operations comprising milk and milk products, cattle feed products, and sugar. The combined share of revenue from these products (manufacturing income) stood low at 7-10% in the last three years.

### **Long-standing supplier relationships**

IPL imports large quantities of fertilizers from the overseas suppliers with whom the company has a long-standing relationship, thereby allowing it to source fertilizers on a cost-competitive basis and under better credit arrangements.

### **Strong distribution network**

IPL has one of the most extensive distribution networks comprising co-operative institutions, private dealers, and other fertilizer units covering more than six lakh Indian villages across geographies in the country. The company sells a large part of the fertilizers to State-level marketing federations and district level co-operative societies. IPL has 15 regional offices across the country, warehousing facilities at 14 major ports and more than 300 inland godowns spread across the country to maintain sufficient stock levels at any given time. IPL uses rail and road transport to distribute allocated quantities depending on the proximity to the states. Overall, a strong marketing and distribution network has been helpful to the company in moving its inventory in a faster time.

### **Stable operational performance in FY23 and 9MFY24**

IPL's consolidated revenue increased by 79% y-o-y to ₹33,323 crore in FY23 from ₹18,521 crore in FY22. The company's sales volume increased to 70 lakh MT in FY23 from 63 lakh MT in FY22. The sales volumes and revenues are largely dependent on the fertilizer subsidy given by the government and related demand for the various fertilizers in the country. The GOI increased the subsidy rates in FY22 and FY23 with the increase in fertilizer prices. As the fertilizer prices have started to ease in the current year, subsequently the government also has reduced the subsidy rates thereby leading to reduction in overall sales revenue of IPL in the current year. In 9MFY24, the company has reported a total revenue of ₹18,777 crore as against ₹29,568 crore for the same period in FY22. The overall sales volume in 9MFY24 stood at 43.72 lakh MT (9MFY23: 58 lakh MT). While the overall demand for Key fertilizers DAP, MOP and Urea is expected to remain stable, the sales revenue is estimated to be lower in FY24 due to ease in fertilizer prices and reduction in subsidy.

### **Diversification into non-core businesses**

IPL has been diversifying its operations primarily into manufacturing agriculture-based product segment including sugar, cattle feed, and dairy. IPL currently operates six sugar mills with a total installed of 21,000 tons of cane per day. In addition to the sugar mill, IPL operates two cattle feed plants and one milk processing plant with installed capacity of 7 lakh liters of milk and milk products per day. The company also ventured into alcohol and alcohol-related chemicals like ethanol blending and grain-based alcohols related to which, IPL has bought a sugar and distillery unit in Dhenkanal, Orrisa from Sakthi Sugars through a slump sale and is also undertaking a capex of ₹250 crore (to be funded by ₹187 crore debt) to set up a grain based distillery plant which is expected to become operational from May 2024. These capex plans are expected to help further integrate the activities within the sugar division and help aid profitability in the coming years. As a measure of backward linkages, the company has setup a joint venture with J.M Baxi which has bagged the rights to manage and mechanize a multi-purpose cargo berth at Vizag port for 30 years. The JV has entered a contract with one of the leading MNC and is awaiting clearance from the port authorities. The successful diversification into these related businesses and scaling up of operations leading to a higher share in the profits would be a credit monitorable. The company has also invested in Jordan Phosphate Mines company (JPMC) in FY19 (27.38% stake) which has been yielding high returns and has also aided in DAP procurement.

### **Key weaknesses**

#### **Profitability exposed to commodity price risk and foreign exchange risk**

IPL's profitability is exposed to commodity price fluctuations. Fertilizer commodity prices have been at all-time high in FY22 and FY23 and despite the higher fertiliser subsidy budget allocation by the GOI, the same was not commensurate with the increase in international prices thereby leading to drop in profitability in FY23. The company booked lower profits in FY23 and 9MFY24 due to mismatch arising from reduction in the subsidy rates on the higher priced inventory kept with the dealers and distributors on which sales realisation were ideally supposed to be booked as per old subsidy rate. The company's margins are also exposed to currency rate movements as IPL does not possess any natural hedge against its imports. In FY23, company incurred a total forex loss of ₹705 crore due to rupee depreciation. The PBILDT margins of IPL decreased to 3.26%

in FY23 from 4.29% in FY22 although the absolute profitability stood increased at ₹1,085 crore in F23 (FY22: ₹785 crore). The drop in profitability has been supported by higher dividends of ₹494.90 crore (FY22: ₹46.58 crore) received from the associate company JPMC in FY23 and the improved profitability from sugar division which stood at ₹81 crore in FY23 (FY22: ₹42 crore). Though the PBILDT margins from the Fertilizer Trading segment has been lower in FY23 and is further expected to remain moderate in FY24, CARE Ratings expects the higher share of profits from JPMC and Sugar division to support the overall profitability in the medium term.

### Working capital-intensive operations

IPL's operations are working capital intensive in nature. The high working capital gap is funded through working capital limits and use of buyers' credit. However, in recent years, there has been improvement in the working capital intensity on account of timely disbursement of subsidy by the government. IPL enjoys large bank limits with lenders at competitive rates to import fertilizers, thereby providing financial flexibility to the company for managing its working capital. The subsidy receivables from the GOI stood increased to ₹4,210 crore on March 31, 2022 (PY: ₹1,190 crore) due to higher subsidy rates. CARE Ratings expects the subsidy receivables to gradually reduce in the medium term due to decrease in nutrient-based subsidy rated by GOI in H2FY24.

### Exposure to highly regulated fertilizer industry and agro-climatic risks

Fertiliser players' profitability is influenced by the regulations governing various types of fertilisers, wherein, the government controls the fertiliser prices and provides subsidies. 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 moderating raw material prices during current year, the government has decreased subsidy budget allocation in FY24 to ₹1.75 lakh crore. 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. The agro-climatic risks also impacts the revenues and delays the receipt of subsidies for the fertiliser companies.

### Liquidity: Strong

IPL's liquidity is strong marked by healthy expected cash accruals against moderate repayment obligations of ₹51 crore in FY24. IPL has sanctioned fund-based limit of ₹1,500 crore, non-fund-based limit of ₹13,685 crore and unsecured urea credit line of ₹14,200 crore with consortium of lenders. The company also has ₹2,900 crore of unsecured working capital limit outside the consortium. The average utilisation of fund-based limit stood Nil in last 12 months ended February 2023. IPL manages its working capital mainly by way of Letter of Credit and short-term funds. The maximum utilisation of non-fund-based limit stood at 56% for the past 12 months ended February 2023. The company normally opens an LC for 180 days for purchases, while it sells at a credit period of 45-60 days excluding the subsidy receivables. The free cash and bank balance including the short-term liquid investments stood at ₹1,877 crore as on March 31, 2023.

### Applicable criteria

- [Consolidation](#)
- [Definition of Default](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Rating Watch](#)
- [Manufacturing Companies](#)
- [Financial Ratios – Non financial Sector](#)
- [Short Term Instruments](#)
- [Wholesale Trading](#)

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial services & supplies	Trading & distributors

IPL was incorporated as Indian Potash Supply Agency (IPSA) in 1955 for import, handling, marketing, and promotion of potash fertilisers in the entire country at the instance of the Ministry of Commerce and Industry, Government of India. IPSA was subsequently converted into IPL in the year 1971. Presently, the majority shareholding of IPL lies with the co-operative (70.21%) and public sector entities (20.55%) with Indian Farmers Fertilizers and Chemicals Limited (IFFCO) being the largest shareholder with 33.99% stake. The company is engaged in the import and distribution of three main fertilisers, MOP, DAP, and urea besides other complex fertilisers such as Sulphate of Potash, Rock Phosphate, and Gypsum among others. IPL also acts as a canalizing agent on behalf of Government of India for import of urea. The company sells its fertilisers through its extensive distribution network in India which reaches six lakh villages, enabling 90% coverage throughout the country. IPL has its own warehousing facility at all major ports and outsourced warehousing facilities throughout India. Besides fertilisers, IPL is also involved in the production of cattle feed and milk processing with a plant in Uttar Pradesh and six sugar mills in Uttar Pradesh with a capacity of 21,000 TCD. IPL is managed by a Board consisting of representatives from major fertilizer companies, state co-operative marketing federations and Government representatives.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24(UA)*
Total operating income	18,521.49	33,323.04	18,777.15
PBILDT	795.43	1085.55	1232.44
PAT	1617.65	1874.44	593.88
Overall gearing (times)	2.17	1.00	NA
Interest coverage (times)	6.97	1.56	3.25

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

\*9MFY24 numbers are standalone.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer to 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

**List of all entities consolidated:** 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
Commercial paper- Commercial paper (Carved out)	Proposed	-	-	-	800.00	CARE A1+
Fund-based - LT-Term loan		-	-	01-11-2027	332.50	CARE AA-; Stable
Fund-based - LT/ ST- Working capital limits		-	-	-	1500.00	CARE AA-; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	18365.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST- Letter of credit		-	-	-	11900.00	CARE A1+

**Annexure-2: Rating history for 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/ST-Working capital limits	LT/ST	1500.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (31-Mar-23)	-	-
2	Commercial paper-Commercial paper (Carved out)	ST	800.00	CARE A1+	-	1)CARE A1+ (31-Mar-23)	-	-
3	Fund-based - LT-Term loan	LT	332.50	CARE AA-; Stable	-	1)CARE AA-; Stable (31-Mar-23)	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	18365.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (31-Mar-23)	-	-
5	Non-fund-based - ST-Letter of credit	ST	11900.00	CARE A1+	-	1)CARE A1+ (31-Mar-23)	-	-

LT: Long term; ST: Short term; LT/ST: 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	Commercial paper-Commercial paper (Carved out)	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - LT/ ST-Working capital limits	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

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

## Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	IPL Sugars and Biofuels Limited	Full	Operational and Financial Linkages with the Parent
2	Jordan Phosphate and mining Company	Proportionate	Operational and Financial Linkages with the Parent

**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](mailto:care@careedge.in) for any clarifications.

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### About us:

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