Gujarat State Fertilizers and Chemicals Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	300.00	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	4,100.00	CARE A1+	Reaffirmed
Commercial paper	1,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings of Gujarat State Fertilizers and Chemicals Limited (GSFC) continue to derive strength from its established and integrated operations in fertilisers and industrial chemical products, with a diversified product profile and a dominant market position in most of its products and strategic investment towards backward integration for securing the supply of key raw materials. Ratings also derive comfort from its comfortable leverage and strong liquidity.

However, ratings continue to be constrained by the risks associated with the regulated nature of the fertiliser industry, 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, and in turn, increase the reliance on short-term borrowings, fluctuation in forex rates, and the cyclicality associated with other industrial products.

Ratings take cognisance of moderation in the operating performance in FY24 (refers to April 1 to March 31) owing to moderation in fertiliser prices and substantial decrease in nutrient-based subsidy rates, which coupled with wage revision of employees undertaken in FY24 led to decline in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to 5.72% (FY23: 14.07%). The margins have continued to remain subdued at 5.08% in Q1FY25 (Q1FY24: 6.90%) in view of subdued fertiliser performance and losses in the industrial products segment given the decline in caprolactam-benzene spread. CARE Ratings Limited (CARE Ratings) believes overall performance is likely to remain stable in FY25 supported by growth in volumes sales.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Significant diversification of GSFC's operations to other fertilizer products and significant increase in its scale and earning return on capital employed (ROCE) above 25% on a sustained basis.
- Improved profitability margin in both fertilizer & industrial products division leading to overall PBILDT margin of more than 12% on a sustained basis.
- Effective management of its working capital requirements with timely receipt of subsidy from GoI resulting in contraction in its operating cycle to less than 90 days.

Negative factors:

- Moderation in PBILDT margin to less than 7% on a sustained basis having an adverse impact on its debt coverage indicators.
- Moderation in its market position in fertilizer business.
- Significant build-up of subsidy receivables leading to elongation in operating cycle beyond 200 days on a sustained basis, which can adversely impact its liquidity.
- Major debt-funded capex or increase in working capital borrowings to fund large subsidy receivables, leading to a deterioration in its total debt/PBILDT to more than 3x on a sustained basis.
- Adverse changes in the regulations governing the fertiliser industry and/or unforeseen material liability arising w.r.t long-pending disputed matters.

Analytical approach: Consolidated

CARE Ratings has adopted the 'Consolidated' analytical approach for GSFC, as there are strong operational and financial linkages among GSFC and its subsidiaries. The list of companies consolidated has been placed in **Annexure-6.**

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

Outlook: Stable

CARE Ratings believes the company's established and dominant position in most of its products shall support the business risk profile while financial risk profile is expected to remain comfortable.

Detailed description of key rating drivers

Key strengths

Well-established and integrated operations and a diversified product profile

GSFC's product range includes fertiliser products (manufacturing) such as di-ammonium phosphate (DAP), ammonium sulphate (AS), ammonium phosphate sulphate (APS), urea, and industrial chemical products like caprolactam, nylon-6 (N-6), melamine, and MEK oxime, among others. The company trades in DAP, urea, ammonia, methanol and other fertilisers, and industrial products. The company is the sole domestic manufacturer of melamine and largest domestic manufacturer of Caprolactum and Nylon-6 in India. Operations are marked by high level of vertical integration across both fertilisers and industrial products divisions. The company meets part of its ammonia and sulphuric acid requirement for manufacturing of fertilisers and a few industrial products through captive production. The captive production of caprolactam is used for manufacturing Nylon-6.

Moderation in operating performance in FY24

After registering significant improvement in operating performance in FY22-FY23, the company's TOI moderated by 19% y-o-y in FY24 to ₹9,162 crore led by correction in fertiliser prices and substantial decline in nutrient-based subsidy rates on October 01, 2023, on the back of decline in raw material prices. Fertiliser segment revenue witnessed a decline of 23%. The decline was partially offset by growth of 6% in the volume sales. The company booked a subsidy income of ₹3,533 crore in FY24 against ₹5,810 crore in FY23. Revenue of the industrial products segment also witnessed a decline of 8% y-o-y in FY24 on the back 11% decline in the realisation while volumes grew by about 3% y-o-y in FY24. Decline in the subsidy rates and consequently downward inventory pricing and inventory losses impacted the profitability margin of the fertiliser segment. The profitability in the industrial products segment were impacted due to pricing pressures considering heavy dumping from China and low caprolactam-benzene spread. There was wage revision of employees undertaken in FY24 which led to an increase in employee cost from ₹668 crore in FY23 to ₹850 crore in FY24. Consequently, PBILDT margin moderated from 14.07% in FY23 to 5.72% in FY24. The company's PBILDT margin had increased substantially to above 14% over FY22-FY23 (FY21: 7.64%) on the back of increase in the industrial products prices and increase in subsidy rates in FY22 and FY23.

In Q1FY25, revenue grew by 5% y-o-y supported by strong growth of 30% y-o-y in volume sales. Despite the growth in the revenue, profitability margins continue to remain subdued in view of sharp reduction in P&K subsidy rates y-o-y, whereas the extent of reduction in the raw material rates stood lower. Industrial products segment registered losses in the quarter due to reduction of Capro-Benzene spread in Q1FY25 (US $582 per MT compared to US $730 per MT in Q1FY24). PBILDT margins remained at 5.08% in Q1FY25 (Q1FY24: 6.90%). CARE Ratings believes overall performance to remain stable in FY25 supported by growth in volumes sales.

Comfortable leverage and debt coverage indicators

GSFC has strong capital structure with tangible net worth (TNW) of over ₹12,700 crore and negligible debt for past three years ended March 31, 2024, given the steady realisation of subsidy dues from GoI.

GSFC has proposed to undertake a few projects, which include an HX crystal project (20 MTPD), a solar power project (15 MW), phosphoric acid (600 MTPD) and sulphuric acid plant (1,800 MTPD) at Sikka and sulphuric acid (400 MTPD) at Baroda and revamping of its urea plant at Vadodara to meet NUP 2015 energy consumption norms and improve its production capacity. As part of the GoI's green initiatives for clean energy-related actions and reducing the country's dependence on natural gas carbon print, GSFC has considered setting up a green hydrogen project (1.44 kilo tonne per annum (KTPA)) at its Vadodara unit and participation in GIPCL's 75-MW Solar Power Project for 37.50-MW power. Overall capex envisaged towards these projects is ~₹2,690 crore, which shall be executed over FY25-FY27, and the same is expected to be funded from available liquidity/internal accruals while debt is expected to be availed on need basis. Thus, credit profile is expected to continue to remain comfortable over the medium term.

Strategic investments towards backward integration mainly to secure steady supplies of raw material and power

To secure the steady supply of phosphoric acid (PA) (the availability of which remains volatile) and to increase the capacity utilisation of its complex fertiliser portfolio at its Sikka plant, GSFC had bought 15% stake in Tunisian Indian Fertilizers, S.A. (TIFERT). Through this investment, GSFC is entitled to receive 180,000 metric tonnes (MT) of PA per annum at the market price. However, the company has been receiving low supplies of PA over the years. As indicated by company's management, TIFERT's capacity utilisation is low at around 30%-35% resulting in low supplies. In FY24, GSFC received 32,158 MT of PA (FY23: 50,690

MT) from TIFERT. To add potassium (K) to its fertilizer portfolio and to capture a larger market share in NPK fertilizers, the company has also invested in a Canada-based company – Karnalyte Resources Inc. (Karnalyte; engaged in exploration and development of high-quality agricultural and industrial potash and magnesium products) in which the company held 47.73% as on March 31, 2024. GSFC has signed an off-take agreement with Karnalyte for 20 years for the purchase of approximately 350,000 tonne of potash per year from the project. The company also benefits from its wind farm with a capacity of 152.80 MW, captive gas-based power plant of 30 MW, a solar power plant of 10 MW and a 0.9 MW solar roof top at its premises. The company also has investments in Gujarat Industries Power Co Ltd (GIPCL; rated 'CARE AA-; Stable/CARE A1+'), whereby virtue of being a promoter, GSFC has the availability of 38 megawatt (MW) of power out of GIPCL's gas-based power plant of 145 MW. Additionally, the company has commissioned 140 kW Solar project at Baroda Unit and 640 kW Solar project at Sikka Unit in January 2024.

Resolution of event-based risk

GSFC had provided a sponsor guarantee for US$ 41.1 million (proportionate to the shareholding of 15%) towards the borrowings of TIFERT. In March 2017, TIFERT requested a re-scheduling of the instalment due to its lenders. However, while the same was under discussion, an acceleration notice was served on TIFERT by its lenders on March 28, 2017. The loan instalment was immediately paid by TIFERT alongwith interest on March 31, 2017. On April 4, 2017, the lenders followed up with a 'call' notice on TIFERT's shareholders towards the guaranteed amount. TIFERT has paid the subsequent instalments due per the schedule and the guarantee provided by GSFC expired on March 31, 2018. As articulated by the company, last instalment was due in March 2024, which has been paid, and accordingly, GSFC is not expecting obligation towards its guarantee in future; however, release of charge is yet impending.

Liquidity: Strong

GSFC's liquidity is strong, marked by healthy expected cash accruals, negligible utilisation of its fund-based limit in the last 12 months ended July 2024 and free cash & fixed deposits of ₹2,295 crore as on March 31, 2024. The company has sanctioned fund-based working capital limits of ₹300 crore with a consortium of lenders, and it has ₹1,110 crore of working capital limits with a set of lenders outside the consortium. It has sanctioned non-fund-based working capital limits of ₹3,000 crore, which is utilised for the import of its raw material requirements. The company also has substantial quoted equity investments to the tune of ₹4,885 crore as on March 31, 2024. Subsidy receivables from GoI declined to ₹1,076 crore as on March 31, 2024 from ₹1,661 crore as on March 31, 2023. As on June 30, 2024, subsidy receivables increased to ₹1,266 crore owing to high sales of 4.46 lakh MT of fertilisers in the quarter. The realisation of subsidy dues from GoI has been timely.

Key weakness

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

The profitability of fertiliser manufacturers is influenced by the regulations governing 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, though differs with the type of fertilizer. With release of large amount of subsidy payments in FY21, subsidy receivables declined significantly leading to significant decline in debt level of the fertilizer companies. Lower subsidy budget may result lead companies to resort to higher short-term borrowings to fund the extended subsidy receivables. With the moderation in raw material prices in FY24, the government had reduced the subsidy budget to ₹1.9 lakh crore (FY23: ₹2.5 lakh crore) and further to ₹1.6 lakh crore for FY25.

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 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 rollout of the second phase of DBT may take some time.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
Environmental	Approximately 32%-35% of company's annual power requirement is met from renewable source of energy and company is further expanding its renewable energy capacities. As part of Extended Producer Responsibility, 100% of the total plastic waste generated was collected by GSFC in FY24 (FY23: 70%) Of the total waste generated by the company, in FY24, 91% of waste was recovered through recycling, reusing or other recovery options. (FY23: 87%)
Social	GSFC has launched E Vehicle subsidy scheme whereby at nominal interest rate of just 2% loan is granted for purchase of E- vehicle to the employees. In addition to the loan for purchase of an E-scooter/E-bicycle,

Risk factors	Compliance and action by the company
	the company extends a subsidy for purchase of E-scooter and e- bicycle. As of February 2024, around 369 employees have taken benefit of the said scheme. Employees have 24*7 access to township medical centre where non-occupational medical health services are provided. Lost time injury frequency rate for employees was 0.33 / one million hours worked and for workers it was 0.61/ one million hours worked. 100% of the company's permanent workers are represented through associations/trade unions. There was one complaint w.r.t sexual harassment filed during the year, which was resolved by the end of year. There were no complaints pending for resolution as at end-FY24.
Governance	As on date, 57% of GSFC's board comprised independent directors. The company has a dedicated investors' grievance redressal mechanism and healthy disclosures.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Fertilizer
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Fertilizers & agrochemicals	Fertilizers

Incorporated in 1962, GSFC is a public sector undertaking promoted by the Government of Gujarat (GoG). GoG, through its undertaking, Gujarat State Investment Ltd (GSIL), owns 37.84% of the paid-up capital of the company. The company's chairman and managing director are appointed by GoG.
GSFC operates in two segments: (i) fertilizers and (ii) industrial products, with integrated manufacturing facilities enabling it to benefit from synergies by manufacturing a host of fertilizers and industrial products. Fertilizers contributed around 75% to the TOI and 95% to its profitability in FY24, whereas industrial products contributed the balance. GSFC manufactures fertilizers like DAP, AS, APS and urea, and industrial products like caprolactam, nylon-6, melamine, MEK oxime, and polymers, among others.

Brief Financials (₹ crore)- Consolidated	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	11,378	9,162	2,163
PBILDT	1,601	524	112
PAT	1,266	564	87
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	106.53	46.83	65.78

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial paper-Commercial paper (Standalone)*		-	-	7-364 days	1000.00	CARE A1+
Fund-based - LT-Cash credit		-	-	-	300.00	CARE AA+; Stable
Fund-based - ST-Others		-	-	-	1100.00	CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	3000.00	CARE A1+

*There is no CP outstanding as on September 19, 2024

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 2024-2025	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
1	Fund-based - LT-Cash credit	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (09-Oct-23)	1)CARE AA+; Stable (20-Dec-22) 2)CARE AA+; Stable (27-Sep-22)	1)CARE AA+; Stable (28-Sep-21)
2	Non-fund-based - ST-BG/LC	ST	3000.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (20-Dec-22) 2)CARE A1+ (27-Sep-22)	1)CARE A1+ (28-Sep-21)
3	Commercial paper-Commercial paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (20-Dec-22) 2)CARE A1+ (27-Sep-22)	1)CARE A1+ (28-Sep-21)
4	Fund-based - ST-Others	ST	1100.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (20-Dec-22) 2)CARE A1+ (27-Sep-22)	1)CARE A1+ (28-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - ST-Others	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	GSFC Agrotech Ltd	Full	Subsidiary
2	Gujarat Port & Logistics Company Ltd.	Full	Subsidiary
3	Vadodara Jalsanchay Pvt Ltd.	Full	Subsidiary
4	Vadodara Enviro Channel Limited	Proportionate	Associate
5	Gujarat Green Revolution Company Limited	Proportionate	Associate
6	Karnalyte Resources Inc (Canada)	Proportionate	Associate

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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