Rashtriya Chemicals and Fertilizers Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	3,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the Commercial Paper (CP) issue of Rashtriya Chemicals and Fertilizers Limited (RCF) continues to derive strength from its established position in domestic fertiliser industry, diverse product portfolio (urea, complex fertilisers and industrial chemicals), operations of the plant at optimum capacity and at healthy efficiency, comfortable capital structure and strong liquidity. The rating also favourably factors in RCF's strategic position due to controlling (75%) equity stake held by Government of India (GoI), which also imparts high financial flexibility.

Rating strengths are offset by regulated nature of fertiliser industry with high reliance on subsidy budget of GoI, which can potentially result in an elongation of the operating cycle, and volatile raw material prices. The rating is also constrained by fluctuations in forex rates, cyclicality associated with industrial chemicals and its large-size capex plans and significant investments proposed in joint venture (JV), which are expected to be largely debt funded.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Dilution in the equity stake of GoI below 51%.
- Dilution in strategic importance of RCF to GoI.
- Interest coverage deteriorating below 2x on a sustained basis.
- Working capital borrowings exceeding 70% of subsidy receivables on a sustained basis.
- Higher than expected debt funded capex or outflow towards proposed investments resulting in debt/profit before interest, lease rentals, depreciation, and taxation (PBILDT) remaining above 4x on a sustained basis.

Analytical approach: Consolidated

RCF has commitment to infuse equity in its JV, Talcher Fertilizers Limited, which is setting up a urea plant. Further, the rating also factors in substantial ownership by GoI and support it receives by virtue of its strategic importance to GoI. The list of companies consolidated has been placed in **Annexure–6**.

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Established position in the domestic fertiliser industry, and vertically integrated operations with diverse product offering

RCF is the fourth-largest producer of urea in India in terms of manufacturing capacity. Furthermore, as per the latest available urea dispatch data, RCF holds a market share of ~6% for urea sales in India. RCF caters to the demand of ~24 states from its two manufacturing facilities in Maharashtra. RCF's operations are marked by high level of vertical integration across fertilisers and industrial chemical product divisions. Its diverse product profile with revenues consisting of fertilisers: urea, complex fertilisers, traded fertilizers and industrial chemicals coupled with the flexibility to change its product mix in accordance with market conditions imparts stability to its revenues. RCF has an established countrywide dealer distributor network of over 3,663 points of contacts which helps in catering diverse geographies.

Operating at optimum capacity with healthy energy efficiency

RCF has maintained healthy operating efficiency at its Thal and Trombay plants in Maharashtra with capacity utilisation of over 90% in the past few years. In FY24, actual energy consumption continues to remain in line with the preset norm announced by GoI in New Urea Policy (NUP) 2015, which lays emphasis on urea subsidy payment based upon energy-efficiency level of unit

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

rather than feedstock used in manufacturing and vintage of manufacturing units. Energy consumption levels of Thal and Trombay plants stood at 5.77 G. Cal/ MT and 6.50 G. Cal/MT against set energy norms of 6.20 G. Cal/MT and 6.50 G. Cal/MT, respectively. In Q1FY25, energy-consumption level stood high at 6.03 G. Cal/MT and 8.33 G. Cal/MT, respectively. Increased energy consumption at the Trombay plant is due to extended shutdown of plant for implementation of energy improvement scheme. Energy improvement scheme has been completed at the Trombay unit. The company is further undertaking revamp of the ammonia plant at Thal towards improvement in energy efficiency of the plant, which is expected to be completed by FY27. CARE Ratings believes operating efficiency of the company to improve with the completion of the energy efficiency scheme at Trombay.

Moderation in operational performance in FY24
After witnessing a strong growth over FY22-FY23, RCF's total operating income (TOI) declined by 21% y-o-y in FY24, led by correction in fertiliser prices and decline in subsidy rates effective October 01, 2023. Overall fertiliser volume sales grew by 9% led by strong increase in trading volumes of Phosphatic and Potassic (P&K) fertilisers, which was done under directives of Government to ensure adequate availability of fertilisers, while manufacturing volume sales declined. Furthermore, industrial chemical segment revenue too declined by ~47% y-o-y decline on the back of softening of prices and decline in sales volume. Decline in revenue, inventory losses consequent to reduction in subsidy rates coupled with higher reduction in subsidy rates vis-à-vis reduction in raw material prices led to decline in PBILDT margin to 2.01% in FY24 from 6.75% in FY23. Q1FY25, revenue witnessed a healthy growth of 9% y-o-y supported by continued strong trading volumes, while manufacturing volumes stood lower in view of the shutdown of plants for implementation of energy improvement scheme and for annual maintenance. PBILDT margin marginally moderated to 2.64% in Q1FY25 vis-à-vis 3.19% in Q1FY24. CARE Ratings believes TOI to improve in FY25 supported by growth in trading volumes. Improvement in the scale and implementation of energy efficiency scheme is likely to support the company's profitability margin.

Comfortable capital structure
RCF has a comfortable capital structure with an overall gearing of 0.72x as on March 31, 2024 (March 31, 2023 - 0.41x). The capital structure witnessed a moderation on account of substantial increase in the overall debt to ₹3297 crore as on March 31, 2024, from ₹1877 crore as on March 31, 2023, led by substantial increase in short-term borrowings to fund higher subsidy receivables, which stood at ₹2953 crore as on March 31, 2024 (March 31, 2023 – ₹2097 crore). Notwithstanding moderation, capital structure continues to remain comfortable.

Liquidity: Strong
RCF's cash accruals is expected to remain sufficient vis-à-vis scheduled term debt repayment obligations of ~₹458 crore in FY25. Outstanding NCDs of ₹800 crore, scheduled for repayment in FY25 (₹300 crore) and in FY26 (₹500 crore), is expected to be partly refinanced. The company had available unencumbered cash and bank balances of ₹47 crore as on August 31, 2024. Utilisation of its bank limits stood comfortable at ~28% for the 12 months ended July 2024. Further, its CP limit of ₹3,000 crore remains fully unutilised since April 2022. Current ratio of 1.45x as on March 31, 2024, also supports RCF's liquidity position. Furthermore, liquidity is supported by strong financial flexibility to raise funds. The company in August 2024 raised ₹300 crore in NCDs. Comfortable capital structure provides headroom to raise additional debt going forward. Moreover, whenever there is stress in government-owned urea companies owing to delay in fertiliser subsidy, government funds under special banking arrangement are made available, wherein, GOI bears a substantial portion of interest on loan which further supports its liquidity.

Key weaknesses
Regulated nature of the fertiliser industry and inherent delays associated with the release of subsidy from GoI
Profitability of fertiliser manufacturers is influenced by regulations governing different types of fertilisers, where the government controls fertiliser prices and provides subsidies. The quantum of subsidy receivables and delays associated with the receipt of this inherently impacts liquidity of fertilizer industry, albeit 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 fertilizer companies. Lower subsidy budget may result lead companies to resort to higher short-term borrowings to fund the extended subsidy receivables. With moderation in raw material prices in FY24, government reduced the subsidy budget to ₹1.9 Lakh crore (FY23: ₹2.5 lakh crore) and further to ₹1.6 Lakh crore for FY25. In FY24, subsidy receivables increased to ₹2,953 crore as on March 31, 2024, from ₹2,097 crore as on March 31, 2023, which were funded through short term borrowings. Subsidy receivables outstanding stood at ₹3027 crore as on August 31, 2024. Nonetheless, regular intervention by government to increase the subsidy budget, recalibrate NPK nutrient rates, and minimum selling prices (MSP) help the sector to work in a regulated manner.

Cyclicality in industrial chemical business
RCF manufactures ~20 industrial chemicals, which contributed ~10% of its TOI in FY24 (FY23: 15%). Chemicals manufactured by RCF have diverse industrial applications in user industries like pharma & drugs, civil aviation and pesticides. Since these chemicals are highly commoditised and cyclical; prices remain volatile on back of global demand and supply, cheaper imports from other countries, prices of its substitutes and key raw material prices. As a result, operating profit margin for the segment is

susceptible to volatility associated with products. Operating performance of industrial chemicals division moderated in FY24, with PBIT margins declining to 12.5% from 27.5% in FY23. However, the same witnessed an improvement and stood at 21% in Q1FY25.

Large-size debt-funded capex over medium term and planned investment in JVs

RCF has substantial capex of ~₹2,300 crore planned over the next three years toward revamp of ammonia plant at its Thal Unit; setting up of new ammonia storage tanks at its Thal and Trombay units, among others. Capex for revamp of ammonia plant is towards increasing energy efficiency scheme and this is expected to be completed by FY27. The proposed capex is expected to be funded in a debt: equity ratio of 70:30.

Besides, RCF has a proposed investment of ₹1,364 crore in FY25-26 in JV - Talcher Fertilizers Limited as a part of share of equity investment. Talcher Fertilisers Limited, JV between RCF (31.85%), Gas Authority of India Ltd. (31.85%), Coal India Limited (31.85%) and Fertilizer Corporation of India Limited (4.45%), is setting up a coal gasification-based fertiliser complex comprising of 2,200 MTPD of Ammonia plant and 3,850 MTPD of Urea plant at Talcher, Odisha. Total capex for the project is estimated ~₹17,080 crore (revised from ₹13,277 crore), which is expected to be funded in debt-equity ratio of 60:40 (revised from 72:28). The company has already infused ₹805 crore of equity till March 31, 2024. In the current fiscal year, the company till date has infused an additional amount of ₹97 crore in JV.

Environment, social, and governance (ESG) risks

Particulars	Risk factors
Environmental	RCF has upgraded existing Effluent Treatment Plant at Thal for recycling the treated effluent as raw water. In the first phase, ~5000 cubic metres of fresh water will be recycled and in the second phase balance effluent will be recycled, to achieve Zero Effluent Discharge. The company has set-up two Sewage Treatment Plants (STPs), which generates ~30 million litres per day treated water, which is used as process water in the Trombay unit. These STPs serve dual purpose – treatment waste sewage generated in the city and convert it into treated water. With a view to harness renewable energy sources, the company has set-up 2 MWp ground mounted solar power generation plant at Trombay Unit and rooftop PV solar power generating facilities with an aggregate capacity 2.25 MWp at Trombay and Thal. RCF has also implemented different projects for improving energy efficiency, including Ammonia Plant Revamp at Trombay and setting up Nano Urea Plant at Thal. The company is setting up Briquette Fired Boiler at Thal unit which will reduce carbon emissions.
Social	RCF conducts regular plant audits to evaluate processes in place from safety aspects and regularly tries to enhance safety at workplace. The company also has an in-house primary health centre. The company has implemented an Occupational Health and Safety Management System (OHSMS), an internationally recognised framework for managing occupational health and safety to ensure the safety and wellbeing of employees and contractor workers. RCF has undertaken several projects in the areas of rural development, promoting health care, nutrition and education aimed for the benefit of society. The company incurred ₹17.93 crore as a part of CSR expenses in FY24 (FY23: ₹11.93 crore.)
Governance	RCF is held 75% by GoI. The company's board of directors comprises of six members including one independent director and two GoI nominee director. The company has strong investor grievance redressal and makes extensive disclosures.

Applicable criteria

Policy on default recognition
Consolidation
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

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

RCF was incorporated in 1978, following reorganisation of erstwhile Fertilizer Corporation of India Limited. Government owned (GoI has 75% equity stake) RCF is one of the leading fertiliser manufacturers in India and has been awarded ''Navratna"status in August 2023. It operates with two manufacturing facilities at Thal (Raigad district) and Trombay (near Mumbai). Thal unit primarily focuses on manufacturing Urea and has capacity to manufacture 2.00 Million Metric Tonnes Per Annum (MMTPA) of Urea, while the Trombay unit operates with Urea capacity of 0.33 MMPTA and other complex fertiliser capacity of 0.69 MMTPA. Apart from manufacturing fertilizer, RCF is also engaged in manufacturing a wide range of industrial chemicals such as concentrated nitric acid, ammonium bi-carbonate, methylamines, and ammonium nitrate melt, among others targeted at diverse industries and marketing of bought-over items like single superphosphate (SSP) and imported fertilisers like, Di-ammonium phosphate (DAP), muriate of potash (MOP) & nitrogen, phosphorus and potassium (NPK) fertilisers.

Brief Financials (₹ crore) – Consolidated	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	21,440.92	16,833.32	4,396.06
PBILDT	1,447.30	337.87	115.87
PAT	966.31	225.28	10.80
Overall gearing (times)	0.41	0.72	NA
Interest coverage (times)	6.18	1.78	1.66

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	3000.00	CARE A1+

No CP was outstanding as on September 23, 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	Commercial Paper-Commercial Paper (Standalone)	ST	3000.00	CARE A1+	-	1)CARE A1+ (19-Oct-23)	1)CARE A1+ (20-Oct-22)	1)CARE A1+ (26-Oct-21)

ST: Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated getting consolidated with RCF

Sr. No.	Name of the Instrument	Extent of Consolidation	Rationale for Consolidation
1	FACT – RCF Building Products Ltd.	Proportionate	Joint Venture
2	Urvarak Videsh Ltd.	Proportionate	Joint Venture
3	Talcher Fertilizers Ltd.	Proportionate	Joint Venture

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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