

## KRIBHCO FERTILIZERS LIMITED

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Short-term bank facilities	200.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

To arrive at the rating of KRIBHCO Fertilizers Limited (KFL), CARE Ratings Limited (CARE Ratings) factored in strong operational, management and financial linkages with the parent entity; Krishak Bharati Co-operative (KRIBHCO). KFL is strategically important to KRIBHCO, as both companies operate in the same line of business. KFL accounts for 28.6% of KRIBHCO's consolidated urea manufacturing capacity and KRIBHCO holds 100% in KFL.

Ratings assigned for KFL's bank facilities factor in strong position of its parent, KRIBHCO in domestic urea industry, well-established integrated company operations and locational advantage. The rating also takes cognisance of optimum capacity utilisation and healthy operational efficiency, leading to improved profitability, comfortable leverage and debt coverage indicators and strong liquidity available with the company's parent.

However, rating strengths are tempered by KFL's concentrated product profile, presence in highly regulated fertilizers industry with high dependence on subsidy, exposure towards changes in target energy norms, and vulnerability of sales to agro-climatic conditions. CARE Ratings also takes cognisance of the company's working capital borrowing being directly linked to timely receipt of subsidies. Quantum of subsidy receivables and delays associated with its receipt inherently impact the credit profile and will remain a key monitorable.

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

#### Positive factors

- Timely receipt of subsidy leading to lower working capital borrowing, improving the company's financial risk profile such as net debt to profit before interest, lease rentals, depreciation, and taxation (PBILDT) remains below 1.5x.
- Improving credit profile of its parent, KRIBHCO.

#### Negative factors

- Changing strategic importance of KFL to KRIBHCO or deteriorating credit profile of the parent entity; KRIBHCO.
- Delaying subsidy receivable or debt funded capex leading to weakening financial risk profile with net debt to PBILDT above 4.5x.
- Regulatory changes adversely impacting the company and its credit profile.

**Analytical approach:** Standalone, factoring linkages with its parent, KRIBHCO due to strong operational and financial linkages with common management.

**Outlook:** Not applicable

### Detailed description of key rating drivers:

#### Key strengths

##### Strong Parentage, strategic importance to parent with operational, financial and management linkages

KFL and its parent, KRIBHCO is a third largest player with ~11-12% market share in domestic urea industry. KRIBHCO has complete marketing rights over KFL's urea production, and KFL benefits from the large distribution network of its parent. KFL accounts for 28.6% of KRIBHCO's consolidated urea manufacturing capacity. Apart from using its own vast marketing network of 9,470 co-operative societies/institutional agencies (spread over 16 states in India), 2,300 dealers and 4000 retailers, KRIBHCO also utilises services of KFL's dealers. The network of the company's dealers presently comprise ~1113 dealers across Uttar Pradesh, Uttarakhand, Haryana, Punjab, Rajasthan, Bihar, Orissa, Chhattisgarh, Jharkhand, Madhya Pradesh, and West Bengal. Being a 100% shareholder in KFL, KRIBHCO has also extended corporate guarantees for the KFL's bank facilities and NCDs. KRIBHCO and KFL have the same Chairperson with some common directors.

##### Well-established integrated operations, locational advantage and optimum capacity utilisation

KFL's operations are marked by high level of integration across fertilizers industry. KFL meets majority of its ammonia requirement for manufacturing urea through captive production. Integrated manufacturing facilities attempt full utilisation of available

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

resources leading to high-capacity utilisation of the company's plants over the years. The company's plant is strategically located in North India, in the middle of a high Urea consumption belt and based on Natural Gas as feedstock supplied through the Hazira-Vijaypur-Jagdishpur ("HVJ") gas pipeline. KFL is optimally utilising its capacities and achieving production over the reassessed capacity (RAC) from the past three years. Capacity utilisation of the company stood at 126% in FY24 and 129% in FY23. Higher capacity utilisation and maintaining operational efficiency helps the company to improve its profitability.

### **Healthy operating efficiency leading to improvement in profitability**

KFL's total revenue from operations declined by ~25% in FY24 as compared to FY23 considering lower subsidy received due to moderation in the prices of natural gas. Volume of urea sold also declined by ~4% in FY24. In Q1FY25, the company's total operating income (TOI) improved by ~19% considering higher volume sales of urea.

the company's profitability margins deteriorated to 5.46% in FY24 (PY: 6.93%) due to moderation in natural gas prices. Gas costs remain a pass-through for urea players, lowering it same impacts absolute profitability of energy-efficient plants. KFL's energy consumption level is well-below the stipulated energy consumption level under new urea policy-2015 (NUP 2015), although slightly deteriorated in FY24 compared to FY23. KFL actual energy consumption stood at 5.1963 Gcal/MT and 5.2180 Gcal/MT in FY23 and FY24 respectively against the energy consumption norm of 5.50 Gcal/MT. Energy consumption below the pre-set norm results in extra gain for the company. Considering this energy efficiency, Energy gain per MT stood at ₹1123 in FY24 (PY: ₹2090), although deteriorated compared to FY23 considering moderation in natural gas prices. CARE Ratings expects efficiency savings to continue in the medium term for KFL, which is expected to support the company's profitability going forward as well.

KRIBHCO's total revenue from operations also declined by ~34% in FY24 compared to FY23 considering moderation in natural gas prices. The company's profitability margins substantially declined in the last two years to -0.86% in FY24 and -2.32% in FY23 from 4.53% in FY22 considering higher losses in non-urea trading business due to downward revision of subsidies. KRIBHCO's operating performance under urea segment was also constrained mainly considering higher energy consumed than the notified norm and owing to under-recovery of fixed costs incurred. However, the company improved its energy efficiency and consumed less energy than notified in FY24, which should lead to improved profitability.

### **Comfortable financial risk**

KFL's capital structure marked by overall gearing remains comfortable however, slightly moderated in FY24 and stood at 1.19x as on March 31, 2024 (PY: 0.93x) considering increase in total debt due to higher working capital borrowing and moderation in profitability considering moderation in natural gas prices. However, the company's leverage position marked by overall gearing ratio improved much in the last five years from 5.19x as on March 31, 2020, to 1.19x as on March 31, 2024. The company's debt coverage indicators are also improving from the last four years although slightly moderated in FY24. Total debt to gross cash accruals (TD/GCA) and TD/PBILDT stood at 5.05x and 4.33x as on March 31, 2024, respectively improved from 40.24x and 11.71x as on March 31, 2020.

Sufficient cash accrual and absence of significant debt funded capex is expected to support the company's financial risk profile. The company's working capital borrowing is directly linked to the release of timely subsidy by GOI. Delays in release of subsidy or inadequacy of fund allocated to subsidy by GOI can adversely impact the company's financial risk profile and will remain a key monitorable.

KFL's parent, KRIBHCO total debt also reduced substantially in FY24 compared to FY23 due to moderation of natural gas prices. Overall gearing (including corporate guarantee extended to group companies) improved and stood at 0.74x as on March 31, 2024 (PY: 1.77x). Despite debt funded capex of ~₹1,100 crore in its subsidiary (KRIBHCO green energy private limited), healthy operating cash accruals along with regular dividend from Oman India fertilizer company (OMIFCO) is expected to support the company's financial risk profile going forward.

### **Liquidity: Adequate**

The company's liquidity is adequate supported by reduction of working capital cycle days since FY22 considering timely receipt of subsidies. Working capital cycle days reduced to 18 days as on March 31, 2024, compared to 159 days as on March 31, 2020, which reduces the company's reliance on working capital borrowings. Average utilisation of working capital limits against sanctioned limits, includes secured and unsecured facilities stood low at 33%, which provides sufficient cushion to the company's liquidity profile. The company also has free cash and cash equivalent of ₹61 crore as on March 31, 2024. KFL's cash flow from operations, unutilised working capital limits and available liquidity in the form of cash and liquid investments are sufficient to support capex and incremental working capital requirements. KFL parent, KRIBHCO also has free cash & liquid investments of ₹1935 crore as on March 31, 2024, which also provides cushion to the company's liquidity profile.

## Key weaknesses

### Exposure to regulatory risks & timely subsidy disbursements:

Urea price (MRP) has been fixed by GOI, which remained largely stable with marginal increase in the last 10 years. The cost of production is substantially high. Hence, subsidy is paid by GOI based on difference between the MRP and cost of production derived on basis of a fixed criteria.

The quantum of subsidy receivables and delays associated with its receipt inherently impacts the fertiliser industry's liquidity, which differs with the type of fertilizer. In the past, fertiliser companies witnessed significant cash-flow mismatches owing to delays in release of subsidy by GoI, due to inadequate subsidy budgeting. Subsidy receipt from GoI has been timely from FY22 to FY24, post clearance of subsidy backlog in FY21. Since, timely receipts of subsidies is directly linked to the working capital borrowings of the company, the company's ability to effectively manage its operations in case of declining prices and reduced subsidy and timely disbursement of the subsidy by GoI would remain a key rating monitorable.

Target energy norms are due to be reviewed in March 2025. Further tightening of these norms by GOI would entail a capex for fertilizer companies and remains a monitorable.

### Concentrated product profile, diversifying into related products:

KFL derived majority revenue (~95%) from sales of urea and receipt of urea based subsidy from government. The company has a capacity to produce 5,01,600 MTPA of ammonia as well. However, most ammonia production is consumed captively to produce urea. Accordingly, revenue from ammonia contributes only 5% in overall revenue. Thus, the company's product profile seems to be concentrated and event affecting the demand of urea or gas prices will severely impact TOI and profitability. However, the company has plans to diversify in other related products as well. Accordingly, it is setting up the plant of Ammonia-bi carbonate (ABC) with a capex outlay of ₹60 crore funded through internal accruals and currently will contribute very marginally to KFL's scale. This is expected to commence within this financial year.

### Agro-climatic Risks

Large portion of the farming land in India depend on vagaries of monsoon in the absence of adequate irrigation facilities. Rainfall deficiency or drought can adversely impact sowing level of crops and in turn the sale of fertilizers.

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Liquidity Analysis of Non-financial sector entities](#)

[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

KFL was incorporated in December 2005, as a special-purpose vehicle under a joint venture agreement between KRIBHCO and Shyam Basic Infrastructure Projects Private Limited, to acquire the Shahjahanpur fertiliser complex of Oswal Chemicals and Fertilisers Limited. The plant in Shahjahanpur has capacity to produce 0.86 metric tonnes per annum (MTPA) of urea and 0.5MTPA of ammonia. On April 21, 2016, KRIBHCO acquired the remaining 7.5% stake in KFL and became a 100% shareholder. The company was then renamed from KRIBHCO Shyam Fertilizers Limited to KFL in June 2017. KFL contributes close to 28.25 % of KRIBCHO's urea capacity at a consolidated level.

Brief Financials (₹ crore)- Standalone		FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income		5,193.43	3,882.73	962.26
PBILDT		359.67	211.97	52.68
PAT		221.89	79.45	12.17
Overall gearing (times)		0.93	1.19	NA
Interest coverage (times)		5.40	4.29	2.66

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

**About Parent:** KRIBHCO was incorporated under the Multi - State Cooperative Societies Act. It was set up in 1980 by the Government of India. It is owned by co-operative societies across India. It manufactures urea, bio-fertilisers and seeds. It has a urea manufacturing plant at Hazira with a capacity of 2.195 million tonne. Apart from urea, the cooperative also trades in non-urea fertilisers, seeds, and other agri-inputs (such as compost). The cooperative society has ownership interests in KFL (100%), OMIFCO (25%), Kribhco Infrastructure Limited (KIL) (24% equity stake- it provides total logistics on multi modal transportation of international and domestic cargo), KIL is now acquired by DP World Rail Logistics Private Limited, Kribhco Agri Business Limited (100%) and Kribhco Green Energy Private Limited (100% equity stake - entity set up for bio-ethanol manufacturing).

Brief Financials (₹ crore)- Standalone	FY23 (A)	FY24 (A)
Total operating income	23936.55	15759.50
PBILDT	-554.54	-135.57
PAT	568.82	260.63
Overall gearing (times)	1.04	0.23
Interest coverage (times)	NM	NM

A: Audited UA: Unaudited NM: Not meaningful; 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
Non-fund-based - ST-BG/LC		-	-	-	200.00	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 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	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+				

ST: 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	Non-fund-based - ST-BG/LC	Simple

**Annexure-5: Lender details**

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

**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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