Madras Fertilizers Limited

December 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	350.00	CARE BB+; Stable	Reaffirmed
Short Term Bank Facilities	397.80	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of Madras Fertilizers Limited (MFL) continue to be constrained by long-standing delays in servicing of Government of India (GOI) loan along with uncertainty associated with restructuring of the same, weak capital structure marked by negative net worth base on the back of past losses, exposure to highly regulated industry, high dependence on subsidy from GOI and qualified opinion of statutory auditors on its audit report.

The ratings, however, continue to derive strength from its established position as a urea manufacturer in South India with locational advantage and satisfactory energy efficiency. The ratings also take cognizance of reduction in MFL's subsidy receivable levels, which has ensured lower reliance on external borrowings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of restructuring of GOI loan with waiver of accumulated interest on the same.
- Sustained healthy operating performance resulting in positive net worth.

Negative factors

- Adverse outcome of restructuring GOI loan with no/lower waiver of accumulated interest on the said loan.
- Sustained pressure on its profitability margin resulting in PBILDT margin remaining less than 5%.
- Significant increase in subsidy receivables adversely impacting its liquidity.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that MFL will continue to benefit from its established position in South India coupled with the energy efficiency improvement processes implemented by the company.

Detailed description of key rating drivers:

Key weaknesses

Weak financial profile marked by negative net-worth and long-standing delays w.r.to repayment of GOI loan

On the back of past cash losses, its net-worth has been eroded leading to negative net-worth as on March 31, 2024. However, with migration of feedstock from Naphtha to RLNG in July 2019, there has been an improvement in the operating performance, which coupled with fair valuation gain on its investment in Indian Potash Limited has enabled the company to improve its net worth.

The company had availed loans form GOI for revamp of its plants, other major capital expenditures and working capital needs during the period of 2003-2012. However, the company defaulted in repayment of the said loans due to cash losses from its operations and has outstanding principal amount of ~₹554 crore and interest accrued on the same of ~₹903 crore as on September 30, 2024.

MFL has submitted a financial restructuring proposal to the GOI for the waiver of the accrued interest and conversion of the outstanding principal amount of ~₹554 crore as a nil interest rate loan with its repayment over a period of 15 years. Any unfavourable outcome of the financial restructuring shall remain a key monitorable.

Moderation in operating performance in FY24; Recovery in H1FY25

After witnessing a strong growth over FY22-FY23, MFL's total operating income (TOI) declined by 35% yoy to ~₹2228 crore in FY24, led by decline in subsidy rates following moderation in gas prices coupled with decline in sales volume. During FY24, Ammonia and Urea plants were shut down in H1FY24 due to operational issues in the plant, shortage of water and in Q3FY24 due to Michaung cyclone, which impacted the sales volumes. Complex fertiliser plant continued to remain non-operational due to raw material procurement issues. Such operational impact led to decline in the PBILDT margin to 4.7% in FY24 (FY23: 9.6%). Furthermore, net profit was impacted on the account of exceptional expenses primarily pertaining to inventory loss due to

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

Michaung cyclone. The operating performance though witnessed an improvement during H1FY25, with company reporting PBILDT margin of ~6.4% while revenue stood at ~₹1188 crore (+30% yoy)

Exposure to highly regulated nature of fertilizer industry and agro-climatic risks

Though the fertilizer industry is strategically important for the Indian government, it is a highly controlled industry and the profit margins as well as liquidity largely hinge on government regulations. While the complex fertilizers have been decontrolled with prices being governed by the market dynamics, urea has been kept out of the Nutrient Based Subsidy (NBS) scheme with its Maximum Retail Price (MRP) being decided by the government. Accordingly, profitability of urea manufacturers is vulnerable to timely receipt of subsidy from GoI. Furthermore, financial health of the fertilizer manufacturers largely depends on the sowing season, vagaries of rainfall, subsidy budget of GoI and the existing channel inventory level.

Qualified opinion from statutory auditor in its Audit Report

In the audit report for FY24, the auditor has continued its qualified opinion on the matters pertaining to GST Input Tax Credit claim and reconciliation, GST accounting, non-capitalization of borrowing cost, inadequate physical verification of inventory by the management, and weak internal financial control, not being commensurate with the size of the business. These material weaknesses, however, do not affect the auditor's opinion on the financial statements of the company, and they have issued an unqualified opinion on the financial statements. The company has appointed a consultant for addressing the issues for internal control.

Furthermore, the Composition of the Board of Directors are not in accordance with the provisions of the Securities and Exchange Board of India (SEBI) (LODR) Regulations. However, being a government company, it has taken up the matter with the Department of Fertilizers, Government of India to appoint sufficient number of Independent Directors to comply with the SEBI (LODR) Regulations.

Liquidity: Stretched

MFL's liquidity position is stretched in view of uncertainty regarding restructuring of GoI loan of ~₹1457 crore as on September 30, 2024 coupled with weak credit profile, which limits the ability to raise funds. The proposal for restructuring has been submitted to the GOI. Apart from this loan, the company has no long-term debt repayment obligations. The company generated cash accruals of ~₹17 crore during FY24 (FY23: ~₹197 crore). Cash accruals stood ~₹47 crore during H1FY25. The company had ₹606 crore as cash and bank balances as on September 30, 2024. Average utilization of fund-based working capital limits stood low at 18% for the past 12 months ended October 2024 on the back of timely disbursement of subsidy dues by GOI.

Key strengths

Well-established operations, locational advantage and significant presence in South India fertilizer industry

MFL is one of the largest urea manufacturers in South India, having a far and wide reach of marketing network throughout the southern states. The company has an established market presence and rich experience of over five decades in the manufacturing of ammonia, urea and complex fertilizers. The company is also engaged in the manufacturing of various bio-fertilizers and marketing of eco-friendly organic fertilizers as well as neem pesticides under its brand name. The company has a significant market share of 21% for urea sales in Tamil Nadu and around 7% in entire South India during FY24 and enjoys a leadership position with ~50% market share in the sales of organic manure in the state of Tamil Nadu. The company has a strategic location as it is in the close vicinity of the Ennore port in Tamil Nadu from where R-LNG is being imported and supplied to MFL.

Conversion of feedstock from Naphtha to R-LNG resulting in energy efficiencies

As mandated by Department of Fertilizers, GOI, the company has successfully shifted its feedstock requirement to R-LNG from Naphtha in FY20. This shift was delayed due to non-availability of gas primarily owing to lack of pipeline infrastructure in the region. Thereafter, Ennore port's R-LNG terminal, set up by Indian Oil Corporation Limited (IOCL) was commissioned in March 2019 and hence MFL was able to switch to RLNG as its feedstock. The plant can now work on dual feed of R-LNG and Naphtha. The requirement for R-LNG has been tied-up with IOCL for a tenure of 10 years, i.e., till December 2028.

MFL has been operating at a satisfactory energy efficiency level with energy consumption below the norms over the years. During FY24, energy consumption levels stood at 7.612 G. Cal/ MT against set energy norms of 7.920 G. Cal/MT. Further in H1FY25, energy-consumption level stood at 7.116 G. Cal/MT as against the set energy norm of 7.524 G. Cal/MT.

Applicable criteria

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

MFL is held by GoI (59.50%), Naftiran Intertrade Co Ltd; an affiliate of National Iranian Oil Company (25.77%) and balance with the public (14.73%). The company is engaged in the manufacturing of Ammonia (3,46,500 MT), Urea (4,86,750 MT) and complex fertilizers (2,80,000 MT). The company is also engaged in manufacturing of Bio-fertilizers and trading of eco-friendly agro chemicals, organic manure and city compost under the brand name 'Vijay'. The company's plant is located on 329 acres of freehold land at Manali, Chennai.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	3447.09	2228.42	1187.57
PBILDT	332.45	104.44	76.50
PAT	185.33	5.58	42.06
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	3.76	1.38	2.39

A: Audited; UA: Unaudited; NM: Not meaningful since net-worth stood negative; 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
Fund-based - LT-Cash Credit		-	-	-	350.00	CARE BB+; Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	2.80	CARE A4+
Non-fund-based - ST-Letter of credit		-	-	-	395.00	CARE A4+

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	350.00	CARE BB+; Stable	-	1)CARE BB+; Stable (13-Dec-23)	1)CARE BB+; Stable (23-Feb-23)	-
2	Non-fund-based - ST-Letter of credit	ST	395.00	CARE A4+	-	1)CARE A4+ (13-Dec-23)	1)CARE A4+ (23-Feb-23)	-
3	Non-fund-based - ST-Credit Exposure Limit	ST	2.80	CARE A4+	-	1)CARE A4+ (13-Dec-23)	-	-

LT: Long term; 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	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Credit Exposure Limit	Simple
3	Non-fund-based - ST-Letter of credit	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.

Contact us

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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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