

Mangalore Chemicals And Fertilisers Limited

January 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	522.55 (Enhanced from 411.96)	CARE A- (RWD)	Continues to be on Rating Watch with Developing Implications
Long-term / Short-term bank facilities	2,202.45 (Reduced from 2,588.04)	CARE A- / CARE A2+ (RWD)	Continues to be on Rating Watch with Developing Implications
Short-term bank facilities	75.00	CARE A2+ (RWD)	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Mangalore chemicals and fertilisers limited (MCFL) continue to be placed on 'Rating watch with developing Implications' following the announcement of the company's merger with the group entity, Paradeep Phosphates Limited (PPL), through a share swap deal. The merger is expected to bring in operational synergies as entities are managed by the common promoters' group and are engaged in manufacturing similar products as PPL has an installed capacity of 3 million tons per annum (2.60 million tons for phosphates and remaining for urea) while MCFL has the capacity of 3.80 lakh tonne urea and 2.85 lakh tonne di-ammonium phosphate (DAP) and complex leading to the aggregate capacity of 3.66 million tonne, which will make the merged entity, one of the leading players in the fertiliser segment and also help consolidation of business to achieve rationalisation of overheads, better geographical coverage and lesser compliances. CARE Ratings Limited (CARE Ratings) will closely monitor the merger's developments and will review ratings once necessary approvals are in place and the transaction is completed in entirety reflecting the exact implications on the merged entity's financial, operational and managerial risk profile. Reaffirmation in ratings assigned to MCFL's bank facilities derives strength from its long track record of operations in the fertilisers industry, benefits exuding from being a part of the reputed and diversified Adventz group and the company's established presence in south India with widespread customer base. Ratings also consider the faster release of subsidy by the government in the past years leading to stark reduction in the company's outstanding subsidy receivables reducing its reliance on the working capital borrowings. Ratings continue to factor in the company's improved operating efficiency considering energy improvement program (EIP) resulting increased energy gain, thus aiding to profitability and cash accruals in FY24 (refers to April 01 to March 31), whereas H1FY25 (refers to April 01 to September 30) showed moderation in income and profitability owing to subdued demand, low sales of complex and drop in fertilisers prices globally. Going forward, CARE Ratings expects the demand and prices to improve gradually from H2FY25 and onwards sustaining the company's leverage and coverage indicators over the near-to-medium term. Ratings also take cognisance of the healthy liquidity buffer available with the company. However, rating strengths remain constrained with MCFL's presence in the highly regulated fertilisers industry with high dependence on subsidy, exposure towards agro-climatic conditions impacting rainfall and sowing practices and raw material price volatility.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving liquidity position and lower working capital borrowings leading to sustained improvement in credit metrics with net debt to profit before interest, lease rentals, depreciation and tax (PBILD) below 1.10x.
- Substantial positive impact of regulatory/policy change on the company's operational risk profile.
- Successful merger which enhances the overall scale and the company's profitability without significant impact on its capital structure.

Negative factors

- Increase in the collection period leading to elongation in the operating cycle of over 180 days on a sustained basis.
- Major debt-funded capital expenditure (capex) or increase in working capital borrowings to fund large subsidy receivables leading to net debt to PBILD deteriorating above 3.5x on a sustained basis.
- Adverse changes in regulations governing the fertiliser industry adversely impacting the company's operational risk profile.

Analytical approach: Standalone

Outlook: Not applicable

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

Detailed description of key rating drivers:**Key strengths****Moderate financial risk profile**

MCFL's capital structure remains moderately leveraged mainly considering higher working capital requirements. However improvement demonstrated, considering improving profitability and timely receipt of subsidy. The company's overall gearing improved from 1.92x as on March 31, 2023, to 1.11x as on March 31, 2024, considering increased net worth base and lower working capital utilisation as the subsidies were received timely. Accordingly, the debt coverage indicators including total debt (TD)/PBILDT and TD/gross cash accrual (GCA) also improved from 4.90x and 7.53x as on March 31, 2023, to 2.63x and 3.86x, respectively as on March 31, 2024. Going forward, the company's financial risk profile is expected to improve post-merger considering improvement in profitability. MCFL is planning to undertake a backward integration plant for sulphuric acid increasing the capacity by 300 TPD from 100 TPD, currently at a total outlay of ₹240 crore to funded through debt of ₹160 crore and remaining through internal accruals and is expected to be operational by September 2025. Higher-than-envisaged debt funded capital expenditure which may significantly impact MCFL's credit profile shall remain negative from credit perspective.

Part of diversified group with long track record of operations

MCFL commenced production of ammonia and urea in 1976, set up ammonium bicarbonate plant in 1982, di-ammonium phosphate and captive power plants in 1986, sulphonated naphthalene formaldehyde plant in 2010 and speciality fertilisers plant in 2011. MCFL is a part of the Adventz group which has interests in agri-inputs, engineering, infrastructure, real estate, consumer durables and services sectors. MCFL was earlier a UB group company, however, in May 2015, the Zuari group acquired an additional 36.56% stake in MCFL over and above its earlier 16.47% stake to become the majority stakeholder in the company with 54.03% stake at present. As part of the Adventz group, MCFL is benefitting from centralised procurement of key raw materials at the group level leading to the benefit of economies of scale, a strong marketing and distribution network, resulting in better cost efficiencies, besides the savings in fixed overheads as a result of integrated operations with the other group companies which are in similar business. The parent company of MCFL, Zuari Agro Chemicals Limited (ZACL), is the group's flagship company and also acts as a holding company for the other group companies engaged in manufacturing fertilisers while the non-fertilisers business is under another holding company, Zuari Global Limited (ZGL). ZACL had raised funds in past by monetisation of its assets (the Goa plant) to its group company Paradeep Phosphate Limited. Sale of these assets and the resultant fund-raising helped ZACL to deleverage its balance sheet. However, MCFL is not dependent for financial support from its promoters as seen in the past since its acquisition and is an independent operating company and is only being benefitting by leveraging the group operational and business linkages with better reach to market.

Established position in southern India and wide customer base

MCFL is engaged in manufacturing nitrogenous and phosphatic fertilisers and is the leading manufacturer of fertilisers in Karnataka. ~77% of the company's products are sold in Karnataka, which meets ~10-11% of the farmers' needs in the state. MCFL also maintains good market share in Kerala and a modest share in Tamil Nadu, Andhra Pradesh, Telangana and Maharashtra. MCFL also has a wide customer base and the top 10 customers continue to account for less than 10% of the total operating income (TOI) (FY24: 3.43% of total TOI).

Key weaknesses**Subdued performance in H1FY25 owing to sluggish demand and falling prices**

MCFL started urea manufacturing the feedstock of natural gas (NG) since December 12, 2020. Current energy consumption is 5.601 G.Cal/MT in FY24, improved from 5.88 Gcal/MT and 6.34 Gcal/MT in FY23, respectively, enabling higher energy savings which increased from 1.48G.cal/MT in FY23 to 1.755 Gcal/MT in FY24. However, energy gain per MT reduced to ₹7,397 (PY: 8,490) due to fall in natural gas prices. MCFL has achieved the sales volume growth of ~28% in FY24 over FY23 while TOI reported growth of only ~4.20% year-over-year (y-o-y) due to reduced subsidies rate considering fall in natural gas prices. In H1FY25 also, TOI showed decline of ~32% to ₹1590.44 crores. Profitability under the non-urea segment improved due to better product mix and fall in the raw material prices. The company's PBILDT margins improved to 10.41% in FY24 and 11.42% in H1FY25 compared to 8.64% in FY23. Going forward, the company's profitability margins are expected to improve considering better product mix and synergies from the ongoing merger.

Vulnerability of sales to agro-climatic conditions

Financial health of fertilisers manufacturers largely depends on the sowing season, vagaries of rainfall, status of subsidy outgo and the existing channel inventory level. Large portion of the farming land in India depends on the vagaries of monsoon in the absence of adequate irrigation facilities. Rainfall deficiency or drought can adversely impact sowing level of crops and the sale of fertilisers. MCFL supplies only in India and caters six states including Karnataka and ~77% of the company's products are sold in Karnataka only, followed by Tamil Nadu (10%), Andhra Pradesh (6%) and others including Telangana and Maharashtra.

Exposure towards fluctuations in raw material prices

MCFL procures the key raw materials including Regassified Liquefied Natural Gas (RLNG), phosphoric acid and ammonia which are imported for manufacturing complex fertilisers. NG supply is secured through mid/long-term contracts. The company also deals in imported fertilisers (DAP and Muriate of Potash [MOP] besides other fertilisers). From December 2020, the company is using NG as raw material for production of urea and also as input for generating power from the captive power plant which is supplied by Gail (India) Limited. Earlier, naphtha and furnace oil was used as feed and fuel which was supplied by Indian Oil Corporation Limited. Raw materials and traded goods derive their prices from the global crude price while international prices of DAP and MOP are based on the demand and supply, therefore the company's turnover fluctuates based on the global crude and commodity prices and are also vulnerable to exchange rate movement.

Exposure towards regulated industry and timely subsidy disbursements

Profitability and liquidity of fertiliser manufacturers is significantly influenced by the regulations governing different types of fertilisers, where the government controls fertiliser prices and provides subsidies. Given the government's thrust on self-sufficiency in food grain production, the fertiliser industry is strategic but highly controlled. Hence, players are susceptible to regulatory changes including energy consumption norms.

Fertiliser companies are also susceptible to delays in subsidy payments from the government, leading to high reliance on working capital loans. Deferment in the disbursement of subsidy considering under-budgeting and change in the regulator scenario remains key rating sensitivity. 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 company's working capital borrowings, 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.

Liquidity: Adequate

Liquidity is marked by buffer between expected cash accruals of above ₹200 crore in FY25 against scheduled repayment obligations of ~₹60.00 crore, of which ~₹40 crore has been repaid till November 30, 2024. Liquidity is further aided through free cash and cash equivalents of ₹297 crore as on September 30, 2024, providing cushion to meet its incremental working capital needs over the near term. The company's operations remain working capital intensive majorly owing to the longer receivables cycle considering subsidy receivables from the government. However, the company's average receivables days improved to 65 days for FY24 due to timely receipt of subsidies leading to lower working capital utilisation of 40% in trailing 12 months leaving buffer to meet future exigencies. CARE Ratings expects the liquidity position to remain comfortable over the near-to-medium term aligned with moderate capex requirements, timely receipt of subsidies, low repayment obligations and sustained operational performance.

Environment, social, and governance (ESG) risks

Fertiliser manufacturing, particularly urea, has a significant carbon footprint as NG is the key raw material for hydrogen which goes into ammonia production and thereafter urea. The government of India (GoI) is expected to provide adequate policy support to the sector if the hydrogen requirement through green route is mandated by GoI for the sector. Agro-climatic risk remains a key risk for the sector given the fact that a significant portion of the Indian agriculture sector depends on monsoons and with changing climate patterns may impact fertiliser off-take. The sector is also socially important, given its role in ensuring food security and rising concerns related to excessive usage of fertilisers and its impact. MCFL has been undertaking its part on ESG front as follows:

Environment

- As an ISO 14001 certified company, many environmental management programs have been implemented to improve the company's environmental performance. The company has changed its feedstock and fuel from naphtha to cleaner NG which has significantly reduced sulphur dioxide emissions. MCFL has achieved zero liquid discharge status in 2010 by upgrading its effluent and sewage treatment plants to recover and reuse the treated waters. The rainwater harvesting system and sewage treatment plants are already installed.
- Fixed NG leak detectors have been installed in areas of recently converted (fule oil to NG) burners of package boiler and dryer combustion chamber in the DAP Plant and Standby auxiliary Boiler (IJT) in Ammonia Plant for early detection and alarm in case of gas leaks.

Social

- MCFL continues to make significant contributions in education, rural development, healthcare, sanitation, employability and empowerment, animal welfare and soil health among others, for the underprivileged community living in the villages near its plant in Mangalore besides its marketing territories.

Governance

- The company ensures compliance with the corporate governance practices as laid down by the SEBI (LODR) Regulations, 2015. The Board of Directors of MCFL comprises an optimum combination of Executive (1), Non- Executive (2) and Independent Directors (3).

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 and agrochemicals	Fertilisers

MCFL, incorporated in year 1966, is one of the leading manufacturers of chemical fertilisers through its manufacturing facility at Mangalore west coast opposite Mangalore Port with installed capacity of Urea - 3.80 lakh metric tonne (LMT), DAP and Complex 2.85 LMT and ~70% of the company's products are sold in Karnataka. MCFL is a part of the Adventz group with majority stake held by ZACL, 54.03% holding). The Adventz group was founded by late K.K Birla and presently led by Saroj Kumar Poddar. MCFL was earlier a UB group company, however, in May 2015; the Zuari group acquired an additional 36.56% stake in MCFL over and above its earlier 16.47% stake to become the majority stakeholder in the company.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	3,641.52	3,795.44	1,590.44
PBILDT	314.65	395.23	181.61
PAT	134.66	154.82	70.29
Overall gearing (times)	1.92	1.11	0.83
Interest coverage (times)	3.02	3.80	3.98

A: Audited UA: Unaudited; 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-Term Loan		-	-	August 2030	522.55	CARE A- (RWD)
Fund-based/Non-fund-based-LT/ST		-	-	-	2202.45	CARE A- / CARE A2+ (RWD)
Non-fund-based-Short Term		-	-	-	75.00	CARE A2+ (RWD)

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-Term Loan	LT	522.55	CARE A- (RWD)	-	1)CARE A- (RWD) (15-Feb-24) 2)CARE A-; Stable (08-Jan-24)	1)CARE A-; Stable (21-Mar-23)	1)CARE BBB+; Stable (23-Dec-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	2202.45	CARE A- / CARE A2+ (RWD)	-	1)CARE A- / CARE A2+ (RWD) (15-Feb-24) 2)CARE A-; Stable / CARE A2+ (08-Jan-24)	1)CARE A-; Stable / CARE A2+ (21-Mar-23)	1)CARE BBB+; Stable / CARE A3+ (23-Dec-21)
3	Non-fund-based-Short Term	ST	75.00	CARE A2+ (RWD)				

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	Fund-based - LT-Term Loan	Simple
2	Fund-based/ Non-fund-based-LT/ST	Simple
3	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

To view 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:

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