Madras Fertilizers Limited(Revised)

February 23, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	350.00	CARE BB+; Stable	Assigned
Short term bank facilities	395.00	CARE A4+	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Madras Fertilizers Ltd. (MFL) are constrained by the 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 and high dependence on subsidy from GOI which gets delayed at times.
The ratings, however derive strength from its established position as a urea manufacturer in South India with locational advantage and continued growth in its revenue led by increase in demand of fertilizers coupled with higher subsidy rates. The ratings also consider the improvement in profitability from FY21 (refers to the period from April 1 to March 31) onwards primarily due to migration of its feedstock from naphtha to Regassified Liquefied Natural Gas (RLNG) resulting in high energy efficiencies as well as reduction in cost of production. The ratings also take cognizance of reduction in MFL's subsidy receivable levels, given the backlog clearance by the government, which improved the liquidity and reduced the 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 availability of natural gas under its sourcing arrangement.
- Accretion of healthy cash accruals and reversal of accumulated interest on GoI loan resulting in positive net-worth base.

Negative factors

- Inability to restructure 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

Key weaknesses

Weak financial profile marked by negative net-worth and long standing delaysw.r.to repayment of GOI loan: On the back of past cash losses from its operations, its net-worth has been eroded leading to negative net-worth as on March 31, 2022. The company had availed loans form GOI for revamp of its plant, other major capital expenditure 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 Rs.554.25 crore and interest accrued on the same of Rs.766.40 crore as on March 31, 2022.
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 Rs.554.25 crore as a nil interest rate loan with its repayment over a period of 15 years.

Exposure to highly regulated nature of fertiliser industry and agro-climatic risks: Though, the fertiliser 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.

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

Liquidity: Stretched
MFL's liquidity position is stretched marked by the inability of the company to generate sufficient cash accruals for meeting its debt repayment obligations (including GOI loan). The proposal for restructuring of the same has been submitted to the government. Apart from this loan, the company has no long-term debt repayment obligations. Moreover, the company has generated cash accruals of Rs.176.73 crore during FY22 (FY21: Rs.34 crore) after cash losses of many years, mainly led by migration to RLNG as feedstock which reduced the overall cost of production. Further, the average utilization of its fund based working capital limits remained low at 38% for the past 12 months ended October 2022 on the back of timely disbursement of subsidy dues by GoI.

Key strengths

Well-established operations of MFL along with locational advantage and significant presence in South India: MFL is one of the largest urea manufacturers in South India, having a far and wide reach of marketing network throughout the southern states. MFL has an established market presence and rich experience of over five decades in the manufacturing of ammonia, urea and complex fertilizers. MFL is also engaged in manufacturing of various bio-fertilizers and marketing of eco-friendly organic fertilizers as well as neem pesticides under its brand name. MFL had a significant market share of 28.01% for urea sales in Tamil Nadu and around 8% in entire South India during FY22. MFL also enjoys a leadership position with ~50% market share in the sales of organic manure in the state of Tamil Nadu.
MFL 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 Regassified Liquified Natural Gas (RLNG) 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 RLNG and naphtha. The requirement for RLNG have been tied-up with Indian Oil Corporation Limited (IOCL) for a tenure of 15 years i.e. till FY34.
MFL achieved its lowest energy consumption of 7.373 (G.Cal/MT) during FY22, which has been the lowest energy consumption by the company since its inception ultimately resulting in its improved performance in FY22.

Significant improvement in operating performance; expected to sustain going forward: MFL's total operating income (TOI) increased at a CAGR of 21% over the period of three years ended FY22 primarily on account of increase in sales volume led by higher usage of fertilizers as well as increase in subsidy rates by GOI to commensurate with high raw material prices. The operating profitability has also improved substantially mainly due to migration to RLNG from Naphtha as a feedstock as the same resulted in high energy efficiencies as well as reduction in cost of production. Further during 9MFY23, the company reported a growth of 76% in its TOI to Rs.2,678.96 crore owing to healthy demand for fertilizers led by good monsoon and increase in subsidy rates. Going forward, the improved operating performance is also expected to sustain on the back of migration from naphtha to RLNG.

Applicable criteria
CARE's policy on default recognition
Criteria on assigning 'Rating Outlook' and 'Credit Watch' to ratings
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating methodology - Manufacturing Companies
Rating methodology - Fertilizer companies
Criteria on Short term instruments

About the company and industry

Industry classification

Macro-Economic 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%). MFL is engaged in the manufacturing of Ammonia (3,46,500 MT), Urea (4,86,750 MT) and complex fertilizers (2,80,000 MT). MFL 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 of MFL- Standalone (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	1,532.79	2,302.16	2,686.77
PBILDT	134.42	244.00	245.64
PAT	2.87	162.05	138.01
Overall gearing (times)	NM	NM	NA
Interest coverage (times)	1.25	2.45	4.15

A: Audited; NM: Not meaningful; Prov.: Provisional, NA: Not available
Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to Annexure-2

Covenants of the rated instruments: Not applicable

Complexity level of the various instruments rated: Please refer to Annexure-3

Lender details: Please refer to Annexure-4

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	350.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	395.00	CARE A4+

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	350.00	CARE BB+; Stable				
2	Non-fund-based - ST-BG/LC	ST	395.00	CARE A4+				

Annexure-3: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long Term	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-4: Lender details:

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

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

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