Rashtriya Chemicals and Fertilizers Limited

October 26, 2021

Rating

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Commercial Paper (CP) issue	3,000	CARE A1+ (A One Plus)	Reaffirmed
Total Instruments	**3,000 (Rs. Three thousand crore only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper issue of Rashtriya Chemicals and Fertilizers Limited (RCF) continues to derive strength from its established position in the domestic fertilizer industry, diverse product portfolio (urea, complex fertilizers and industrial chemicals) and both its plants operating at optimum capacity. The rating also favorably factors in the strategic position of RCF due to the controlling (75%) equity stake held by the Government of India (GoI), which also imparts high financial flexibility to it. The rating also favourably factors healthy energy efficiency of its plants with the actual energy consumption being lower than the GoI-prescribed norms, improvement in its profitability during FY21 (refers to the period April 1 to March 31) on the back of favourable raw material and gas prices, substantial decline in subsidy receivables leading to significant decline in its working capital borrowings, improved capital structure and strong liquidity. Furthermore, the rating takes in to account the favourable resolution of its long pending dispute pertaining to utilization of subsidized gas for other-than-urea manufacturing operations.

The rating, however, continues to be partially tempered by its presence in the regulated fertilizer industry, high volatility in prices of raw materials and gas which have gone up sharply in H1FY22, fluctuations in foreign exchange rates, cyclicality associated with industrial chemicals and its large-size capex plans as well as significant investments planned in projects taken up in joint ventures which are proposed to be partly debt funded.

Rating Sensitivities

Positive Factors (factors that could lead to positive rating action/upgrade): Not Applicable

Negative Factors (factors that could lead to negative rating action/downgrade)

- Dilution in the equity stake of GOI below 51%
- Interest coverage deteriorating below 2x on a sustained basis
- Total debt/ PBILDT increasing above 5x on a sustained basis
- Significant increase in subsidy receivables adversely impacting its liquidity on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Established position of RCF in the domestic fertilizer industry; and vertically-integrated operations with diverse product offering

In terms of manufacturing capacity, RCF is the third-largest producer of urea in India. Furthermore, RCF had a market share of around 6% for urea sales in India during FY21 (fifth largest in FY20). RCF caters to the demand of around 18 states from its two manufacturing facilities located in Maharashtra.

The operations of RCF are marked by high level of vertical integration across both fertilizers and industrial chemical product divisions. Its diverse product profile with revenues consisting of fertilizers: urea, complex fertilizers, 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 dealer distributor network of over 6,000 points of contacts which helps in catering to the diverse geographies.

Operating at optimum capacity with healthy energy efficiency

RCF has maintained high operating efficiency at its Thal and Trombay plants in Maharashtra with capacity utilization of over 100% during the past few years. The energy consumption continues to remain lower than the preset norm announced by the GoI in the New Urea Policy (NUP) 2015, which lays emphasis on urea subsidy payment based upon the energy efficiency level of the unit rather than feedstock used in manufacturing and vintage of the manufacturing units. In accordance with the NUP 2015, energy norms for the Thal unit was revised to 6.200 Gcal/MT with effect from April 01, 2018. In order to meet this norm, RCF incurred capex at its Thal unit and accordingly energy efficiency has improved from 5.922 Gcal/ MT in FY18 to 5.860 Gcal/MT in FY21. For the Trombay unit, the new norm of 6.5 Gcal/MT has been implemented from October 1, 2020, and as

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

such RCF is undertaking capex to remain well below this new norm. In Q1FY21, energy efficiency at both the plants was impacted on account of temporary shutdown due to CoVID-19. During Q1FY22, energy consumption at its Trombay unit stood marginally below the new prescribed norm. Accordingly, successful and timely completion of the capex (aimed at improving energy efficiency) at Trombay shall be a key rating monitorable.

Improvement in financial performance during FY21 and Q1FY22

RCF's operating profitability margins marked by PBILDT margin improved to 9.90% during FY21 from 6.80% during FY20 on the back of favourable raw material and gas prices in fertilizer division and improved profitability of its industrial chemical business. Its PBILDT margin continued to remain healthy at 9.42% in Q1FY22. Furthermore, on the back of realization of large amount of subsidy receivables, its debt level declined significantly, leading to improvement in its capital structure marked by an overall gearing of 0.62 times as on March 31, 2021 vis-à-vis 1.52 times as on March 31, 2020. Also, its debt coverage indicators marked by interest coverage and Total Debt /PBILDT stood comfortable at 4.59 times and 2.50 times in FY21.

Substantial decline in subsidy receivables leading to significant decline in working capital borrowings and consequent decline in finance cost

As a part of Atmanirbhar 3.0 package, GoI allocated additional Rs.65,000 crore towards fertilizer subsidy outgo for FY21 over and above Rs.71,309 crore allocated earlier in the budget estimate for FY21. Consequently, subsidy receivables of fertilizer manufacturers from GoI reduced substantially by end-FY21. Total subsidy receivables of RCF, too, declined from Rs.4,248 crore on March 31, 2020 to Rs.1,106 crore as on March 31, 2021, leading to very high cash flow from operations of Rs.5,220 crore during the year. RCF utilized this cash flow from operations to substantially rationalize its working capital borrowings which resulted in substantial savings in finance cost during FY21.

Favourable resolution of its long pending dispute w.r.to order issued by Dept. of Fertilizer (DoF)

DoF had issued office memorandum (OM) on January 6, 2014, to RCF for recovery of undue benefits on account of usage of Administered Price Mechanism (APM) gas to manufacture P&K fertilizers from the date of OM considering differential price of fertilizers based on imported ammonia and the APM gas, pending finalization of guidelines on recovery. Furthermore, Ministry of Petroleum & Natural Gas (MoPNG) vide its order dated December 16, 2015, had directed GAIL India Ltd (GAIL) to levy higher gas price (the highest rate of RLNG used for urea production) for gas consumed for non-urea operations. Accordingly, GAIL had raised a claim of Rs.1,457.92 crore on RCF against which RCF had made provisions of Rs.234.17 crore. This matter was heard in the meeting of Administrative Mechanism for Resolution of CPSEs Disputes (AMRCD) on June 17, 2021 and vide its order dated July 06, 2021, AMRCD has determined total claim to be paid by RCF at Rs.106.82 crore including a claim relating to gas transportation charges of earlier years. RCF has fully paid Rs.106.82 crore in Q2FY22 and the excess provision of Rs.127.35 crore was written back in its Q1FY22 results.

Liquidity: Strong

Strong liquidity of RCF is characterized by sufficient cushion in its cash accruals vis-à-vis its term debt repayment obligations for FY22. Also, it had free cash and bank balance of Rs.1,195 crore on September 30, 2021. Its bank limits are utilized to the extent of 8.87% on an average and as against its CP limit of Rs.3,000 crore, its outstanding CP stood at Rs.350 crore on September 30, 2021. The current ratio of 1.63x as on March 31, 2021, also supports the liquidity position of RCF. Also, whenever there is stress in government-owned urea companies owing to delay in receipt of fertilizer subsidy, government funds under the Special Banking Arrangement are made available wherein, GoI bears a substantial portion of the interest on the loan which further supports its liquidity.

Key Rating Weaknesses

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

Though, the fertilizer industry is strategic for the Indian government, it is also a highly controlled industry and the profit margins and liquidity largely hinge on government regulations. In case of urea, RCF's liquidity depends on timely subsidy receipt from GoI. On the back of sharp increase in gas prices from October 01, 2021, RCF's subsidy requirement for FY22 is likely to again increase compared with FY21 whereby current subsidy budget of GoI is likely to be short compared to requirement which could again lead to build-up of subsidy receivables for the fertilizer industry, including RCF. Furthermore, in case of P&K fertilizers, the subsidy remains capped and increase in gas and raw material prices are likely to impact RCF's profitability as entire rise in cost structure is generally not fully passed on to the consumers in-spite of the same not being controlled by the GoI. Furthermore, the agro-climatic risks may also reduce the revenues and delay the receipt of subsidies for the fertilizer companies.

Cyclicality in industrial chemical business; albeit the profitability of the segment improved significantly in FY21 and Q1FY22

RCF manufactures around 20 industrial chemicals which contribute around 10%-12% to its total operating income. The chemicals manufactured by RCF have diverse industrial application in user industries like Pharma & Drugs, Civil Aviation and

Pesticides. Since, these chemicals are highly commoditized and cyclical in nature; the 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, the operating profit margin for the segment is susceptible to volatility associated with the products. While the industrial chemicals division had reported losses in FY20 on account of operational issues as well as non-competitive international prices, the division has turned around and reported PBIT margin of more than 22% in FY21 and more than 25% in Q1FY22.

Large-size capex to comply with tightening of efficiency norms and planned investments in joint ventures (JVs)
RCF has planned total own capex (around Rs.830 crore) and investment in JVs (around Rs.770 crore) for around Rs.1,600 crore over the next three years period which is envisaged to be funded by term debt of Rs.1,150 crore and balance from internal accruals. The Department of Fertilizers (DoF) has been tightening energy consumption norms for the fertilizer units to reduce subsidy disbursement. RCF, on account of its older plants has planned total capital expenditure of around Rs.250 crore towards renovation and modernization of its Trombay plant in the next three years, whereas it has planned capex of around Rs.270 crore towards Urea reactor, effluent treatment plant (ETP) and new Ammonia storage tank at its Thal plant in the next three years.
RCF has entered into a JV named Talcher Fertilizers Ltd. (TFL) with GAIL, Coal India Ltd. (CIL) and Fertilizer Corporation of India Ltd. (FCIL) for revival of Talcher unit of FCIL whereby RCF's share in the JV is 31.85%. TFL is setting up a coal gasification-based fertilizer complex comprising 2,200 MTPD of Ammonia plant and 3,850 MTPD of Urea plant at Talcher, Odisha. The total estimated capex towards revival of this unit is expected to be around Rs.13,277 crore to be funded by debt-equity ratio of 72:28. RCF will be required to infuse its share of equity in the JV which amounts to Rs.1,184 crore. By end-FY21, Rs.535 crore is already infused by RCF. Apart from this, RCF has planned to enter in to an another JV with its 17% stake in JV for revival of Namrup unit of Brahmaputra Valley Fertilizer Corporation Limited (BVFCL, 11%) along-with NFL (28%), Oil India Ltd. (18%) and Govt. of Assam (26%). This JV entails to set-up a urea plant with an annual capacity of 1.27 million MT. Feasibility study for the project is being carried out and investment from RCF is expected to begin by end-FY23. The total estimated capex in this JV is expected to be around Rs.8,000 crore.

Analytical Approach: Consolidated as RCF has commitment to infuse equity in its, JV, namely, Talcher Fertilizers Ltd. and proposed JV with Brahmaputra Valley Fertilizer Corporation Ltd. These joint ventures are in similar line of business. Furthermore, the ratings also factor in substantial ownership by GoI and the support it receives by virtue of its strategic importance to GoI.

Applicable Criteria
Criteria for Short Term Instruments
CARE's Policy of Default Recognition
Rating Methodology – Manufacturing Companies
Rating Methodology – Fertilizer Companies
Rating Methodology – Consolidation
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
RCF was incorporated in 1978 following the reorganization of the erstwhile Fertilizer Corporation of India Ltd. The Government-owned (Government of India has 75% equity stake) RCF is one of the leading fertilizer manufacturers in India and operates with two manufacturing facilities located at Thal (Raigad district) and Trombay (near Mumbai). The Thal unit primarily focuses on manufacturing of 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 fertilizer capacity of 0.69 MMTPA. RCF sells its products under well-established brands "Ujjwala" (urea) and "Suphala" (complex fertilizers). Apart from manufacturing of fertilizer, RCF is also engaged in manufacturing of wide range of industrial chemicals targeted at diverse industries and marketing of bought over items like Single Superphosphate (SSP) and imported fertilizers like, Di-ammonium Phosphate (DAP), Muriate of Potash (MOP) & NPK (Nitrogen, Phosphorus and Potassium) fertilizers.

Brief Financials – Consolidated (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	9,828.37	8,411.40
PBILDT	668.27	832.86
PAT	207.13	375.30
Overall gearing (times)	1.52	0.62
Interest coverage (times)	2.79	4.59

A: Audited; classified as per CARE Standards
As per the provisional results for Q1FY22, RCF reported TOI of Rs.2,417.26 crore (Q1FY21: Rs.1,649.64 crore) with a PAT of Rs.207.48 crore (Q1FY21: Rs.19.20 crore).

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
Covenants of rated facility: Please refer Annexure-3
Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)		-	-	7-364 days	3000.00	CARE A1+

Annexure-2: Rating History (Last three years)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Commercial Paper-Commercial Paper (Standalone)	ST	3000.00	CARE A1+	-	1)CARE A1+ (30-Oct-20)	1)CARE A1+ (27-Feb-20)2)CARE A1+ (01-Oct-19)	1)CARE A1+ (08-Jan-19)2)CARE A1+ (16-Jul-18)

Annexure-3: Detailed explanation of covenants of the rated facilities – Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: List of entities which have been consolidated in RCF

Sr. No.	Name of the company	% shareholding of RCF as on March 31, 2021
1	FACT-RCF Building Products Ltd.	50.00%
2	Urvarak Videsh Ltd.	33.33%
3	Talcher Fertilizers Ltd.	33.33%

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Hardik Shah
Contact No.: +91-79-4026 5620
Email ID – hardik.shah@careratings.com

Relationship Contact
Name: Saikat Roy
Contact No.: +91-22-6754 3404
Email ID – saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**