

Gujarat State Fertilizers & Chemicals Limited

May 15, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper (CP) Issue	1,000.00 [Enhanced from Rs.500 crore] (Rupees One Thousand crore only)	CARE A1+ [A One Plus]	Reaffirmed

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Gujarat State Fertilizers & Chemicals Ltd (GSFC) continue to derive strength from its established and integrated operations in fertilizers and industrial products with a diversified product profile, dominant market position in most of its products and efficient energy consumption parameters for urea and other plant operations with most of the plants operating at optimum capacity. The ratings also continue to reflect its comfortable leverage and liquidity along with and high degree of financial flexibility. The ratings also factor GSFC's strategic investment for backward integration to secure supply of key raw materials. The ratings further take cognizance of the fact that the Department of Fertilizers (DoF) has included ammonium sulphate (AS) in the nutrient based subsidy (NBS) scheme effective from March 6, 2017 and has agreed to release the subsidy on AS of GSFC for the period from April 2010 to March 2013.

The long-term rating, however, continues to be constrained by the risk associated with regulated nature of fertilizer industry and delay in release of subsidy from Government of India (GoI) mainly in the second half of the financial year which leads to elongation of operating cycle and in turn higher reliance on short term borrowings. Volatility in prices and supply of key raw materials, fluctuations in forex rate and cyclical nature associated with other industrial products also constrains the rating.

Any adverse changes in the regulations governing fertilizer industry, ability of GSFC to further improve its operational efficiency and profitability while maintaining its comfortable liquidity and capital structure would be the key rating sensitivities. Any significantly large investment requirement or higher than envisaged exposure to group entities would also be key credit monitorable.

CARE takes cognizance of the fact that the matter related to issuance of office memorandum (OM) by DoF for recovery of 'undue benefits' accrued with use of domestic gas for production of P&K fertilizers is pending before authority for deliberations. CARE has not factored in the event risk pertaining to the above issue, however, any significant recovery by DoF from mopping of gains could adversely affect the credit metrics of the company. Further, the decision of DoF relating to release of accrued AS subsidy for the period from March, 2013 to March 2017 would also be crucial.

Detailed description of the key rating drivers

Key Rating Strengths

Well-established and integrated operations along with diversified product profile: GSFC's product range includes fertilizer products (manufacturing) like Di-Ammonium Phosphate (DAP), Urea, AS, Ammonium Phosphate Sulphate (APS) and chemical products like Caprolactam, Nylon-6 (N-6), Melamine, Nylon chips, Nylon filament yarn, MEK Oxime etc. Furthermore, GSFC trades in DAP, Methanol and Melamine.

GSFC's operations are marked by high level of vertical integration across both fertilizers and industrial products division. GSFC meets its ammonia requirements for manufacturing of fertilizers such as urea, AS and APS and few chemical products through captive production. Furthermore, captive production of Caprolactam is used for manufacturing N-6 which is further used for manufacturing of nylon filament yarn. The integrated manufacturing facilities attempt full utilization of available resources.

Comfortable leverage and liquidity indicators: Overall gearing ratio of GSFC witnessed an improvement as on March 31, 2017 mainly due to decline in short term borrowings with reduction in receivables. The receivables were mainly related to fertilizer division, both subsidy receivables and sales receivables. Subsidy receivables decreased from Rs.2,382 crore at

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

FY16 end to Rs.1,954 crore at FY17 end and further to Rs.1,728 crore as on March 31, 2018 mainly due to decrease in subsidy on urea on account of lower production cost and release of part ammonium sulphate subsidy.

GSFC's liquidity continued to remain comfortable with low average utilization of cash credit facilities as a percentage of sanctioned limits at 15% for the 12 months period ended in March 2018.

Strategic investments in backward integration mainly to secure steady supplies of raw material and power: To secure steady supply of Phosphoric Acid (PA) (the availability of which remains volatile) so as to increase the capacity utilization of its complex fertilizer portfolio at Sikka plant, GSFC has invested Rs.148 crore in Tunisian Indian Fertilizers S.A. (TIFERT; Joint Venture in Tunisia) (GSFC's holding is 15%). Through this investment, GSFC is entitled to receive 1,80,000 MT of PA per annum at market price. The capacity utilization TIFERT remained around 30-35% during 9MFY18 which has improved to 50-60% from January 2018 onwards.

Further, to add Potassium (K) in its fertilizer portfolio and to capture the larger market share in NPK fertilizers, GSFC has also invested Rs.238 crore in Canada based company Karnalyte Resources Inc. (Karnalyte; engaged in the business of exploration and development of high quality agricultural and industrial potash and magnesium products). GSFC has signed off-take agreement with Karnalyte for 20 years for purchase of approximately 350,000 tonne of potash per year from phase-I of the project. Due to lower potash prices, currently the phase-I of the project has been stalled and its revival is under consideration.

GSFC has also invested around Rs.37 crore in Gujarat Industries Power Company Ltd (GIPCL; rated CARE AA-; Stable/ CARE A1+) which has enabled GSFC to avail power of around 38 MW out of GIPCL's gas based power plant of 145 MW.

Release of withheld AS subsidy: DoF has agreed to release the withheld subsidy of Rs.288.37 crore for the period from April 1, 2010 to March 17, 2013 (after adjusting Rs.33.78 crore). The DoF in coordination with Fertilizer Industry Coordination Committee (FICC) has also agreed to examine the eligibility of claims based on cost data for the period from March 18, 2013 to March 5, 2017, which is expected to be released soon since the claims in the said period are in lines with the agreed claims for the period from April 1, 2010 to March 17, 2013. Further, DoF, vide its office memorandum dated March 15, 2017 has allowed AS produced by GSFC to be included in the NBS scheme effective from March 6, 2017.

Key Rating Weaknesses

Event risk arising from order issued by DoF to recover 'undue benefits' earned by P&K fertilizer producers using cost effective domestic gas as feedstock: DoF issued OM on January 6, 2014 to GSFC and Rasthriya Chemicals & Fertilizers Ltd. for recovery of 'undue benefits' on account of usage of cost effective 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.

GSFC has taken up the matter with the DoF and also challenged the OM before the Hon. High court of Gujarat which has put stay order on OM. However, any significant recovery by DoF from mopping up of 'undue benefits' for ammonia produced using domestic gas, by GoI, could affect the company's credit metrics and will be crucial from credit perspective.

Regulated nature of fertilizer industry and delays in release of subsidy from GoI: The allocated fertilizer subsidy budget of Rs.70,000 crore for FY17 was grossly inadequate with back-log of unpaid subsidy of Rs.35,000 crore for FY16. As a result, the allocated subsidy budget of FY17 for urea and P&K fertilizers was exhausted in early H2FY17.

The subsidies for fertilizers were reduced during FY17 due to lower raw material costs resulting in lower subsidy outlay for FY17. Despite lower subsidy requirement for FY18, GoI continued the fertilizer subsidy budget at Rs.70,000 crore for FY18 (unchanged from FY17 level) which is likely to reduce the unpaid subsidy backlog of around Rs.32,000 crore from FY17. With the reduction in subsidies and stable subsidy budget, the receivables and thus interest cost of short term borrowing is expected to reduce, thus positively impacting the profitability of the companies. Further, GoI continued with fertilizer budget allocation of Rs.70,080 crore for FY19.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)
About the Company

Incorporated in 1962, GSFC (CIN no.L99999GJ1962PLC001121) is a public sector company promoted by the Government of Gujarat (GoG). GoG, through its undertaking Gujarat State Investment Ltd (GSIL), owns 37.84% of the paid-up capital of the company. The Chairman and Managing Director of the company are being appointed by GoG.

GSFC operates in two segments (1) fertilizers and (2) industrial products, with integrated manufacturing facilities enabling it to benefit from synergies; it manufactures a host of fertilizers and industrial products. While, fertilizers contributed about 67% to the total income of FY17, industrial products contributed the balance 33%. GSFC manufactures fertilizers like di-ammonium phosphate (DAP), ammonium sulphate (AS), ammonium phosphate sulphate (APS), urea and industrial products like caprolactam, melamine, MEK oxime, polymers, nylon 6 (N-6) and nylon fibres.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	6,151	5,303
PBILDT	699	525
PAT	400	409
Overall gearing (times)	0.27	0.16
Interest coverage (times)	22.31	8.09

A: Audited

GSFC reported total operating income of Rs.4,318 crore with PBILDT of Rs.404 crore in 9MFY18 as against total operating income of Rs.3,913 crore with PBILDT of Rs.415 crore in 9MFY17.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE 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.

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Annexure-1: Details of Instruments

Name of the Instrument	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	1000.00	CARE A1+

Annexure-2: Rating History of 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	465.00	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Aug-17)	1)CARE AA+ (10-Aug-16)	1)CARE AA+ (15-Oct-15)
2.	Non-fund-based - ST-BG/LC	ST	1500.00	CARE A1+	-	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)	1)CARE A1+ (15-Oct-15)
3.	Commercial Paper- Commercial Paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)	1)CARE A1+ (15-Oct-15)
4.	Fund-based - ST-Buyers Credit	ST	1200.00	CARE A1+	-	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)	1)CARE A1+ (15-Oct-15)

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