

Gujarat State Fertilizers & Chemicals Limited

October 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	465.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2,700.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	3,165.00 (Rupees Three thousand one hundred sixty five crore only)		
Commercial Paper (CP) Issue	1,000.00 (Rupees One Thousand crore only)	CARE A1+ (A One Plus)	Reaffirmed
Total Instruments	1,000.00 (Rupees One Thousand crore only)		

Details of instruments/ facilities 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 chemical 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, strategic investment for backward integration to secure supply of key raw materials, its comfortable leverage and liquidity along with high degree of financial flexibility. The ratings also take cognizance of the fact that the Department of Fertilizers (DoF) has largely released the withheld subsidy on ammonium sulphate (AS).

The long-term rating, however, continues to be constrained by the risk associated with regulated nature of fertilizer industry, 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, cyclicity associated with other industrial products and its large size capex plans.

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 the key credit monitorables.

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 the authority for deliberations. Further, GSFC had provided financial guarantee towards borrowings of Tunisian Indian Fertilizers, S.A. (TIFERT) and lenders issued a call notice towards the guaranteed amount in April 2017. The guarantee has however expired on March 31, 2018. CARE has not factored in the event risk pertaining to the above issues, however, any adverse deliberations on these counts could affect the credit metrics of the company.

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 industrial chemical products like Caprolactam, Nylon-6 (N-6), Melamine, Nylon chips, MEK Oxime, etc. Furthermore, GSFC trades in DAP, Methanol, Melamine and other fertilizer as well as Industrial products.

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 industrial products through captive production. Furthermore, captive production of caprolactam is used for manufacturing N-6. The integrated manufacturing facilities attempt full utilization of available resources.

Comfortable financial risk profile

Total Operating Income (TOI) of GSFC improved by ~35% during FY19 from Rs.6346 crore in FY18 to Rs.8576 crore in FY19 mainly on the back of higher trading income of DAP. PBILDT margin moderated from 10.23% during FY18 to 9.77% during FY19 mainly because of higher trading income; otherwise absolute PBILDT improved from Rs.649 crore in FY18 to Rs.838 crore in FY19. Overall gearing ratio of GSFC remained stable at 0.15x as on March 31, 2019 with stable working capital

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

borrowings. Subsidy receivables decreased marginally from Rs.1,719 crore at FY18 end to Rs.1,658 crore at FY19 end mainly due to release of withheld AS subsidy. Also, its debt coverage indicators marked by interest coverage & Total debt / PBILDT improved during FY19.

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 had bought 15% stake in Tunisian Indian Fertilizers S.A. (TIFERT; Joint Venture in Tunisia). Through this investment, GSFC is entitled to receive 1,80,000 MT of PA per annum at market price. During FY19, GSFC received 76,000 MT of PA from TIFERT compared to 52,000 MT in FY18.

Further, to add Potassium (K) in its fertilizer portfolio and to capture the larger market share in NPK fertilizers, GSFC has also invested in a 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. Currently, phase-I of the project has been stalled and its revival is under consideration.

GSFC has also invested 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 released 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). Further, DoF vide its office memorandum dated March 15, 2017 agreed to include AS produced by GSFC in the NBS scheme effective from March 6, 2017. The DoF has also agreed to release subsidy from March 18, 2013 to March 5, 2017 aggregating Rs.662.95 crore.

Liquidity: Strong

Liquidity of GSFC is marked by strong accruals against low debt repayment obligations and it also had investment in quoted instruments to the tune of Rs.1,937 crore (market value) as on March 31, 2019. With an overall gearing of 0.15 times as of March 31, 2019, GSFC has sufficient gearing headroom to raise additional debt for its capex. GSFC's liquidity continued to remain strong with low average utilization of cash credit facilities as a percentage of sanctioned limits at 16% for the 12 months period ended in July 2019. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Key Rating Weaknesses

Regulated nature of fertilizer industry and delays in release of subsidy from GoI

The allocated fertilizer subsidy budget of Rs.70,090 crore for FY19 was inadequate after factoring the back-log of unpaid subsidy of Rs.23,000 crore for FY18. Lower than required budgetary allocation leads to exhaustion of available funds for fertilizer subsidy by October-November of the financial year.

The subsidy for fertilizers was kept stable during FY19 vis-à-vis FY18; however, the requirement for funds increased with increase in raw material costs resulting in increase in unpaid subsidy backlog to Rs.30,000 crore for FY19. On the backdrop of increase in raw material prices and subsidy backlog; the fertilizer subsidy budget was hiked to Rs.79,996 crore for FY20 which is still likely to be inadequate for clearing the subsidy backlog and making payment for FY20 subsidy.

The shortfall in subsidy budget usually affects the cash flow position of companies in second half of the financial year and thus companies have to resort to higher short term borrowings to fund extended subsidy receivables. Further, with pan-India implementation of direct benefit transfer (DBT), the companies expect that working capital borrowings would go up with increase in subsidy receivables.

Risk associated with large size capex plans

Apart from routine capex, GSFC has proposed capex for phosphoric acid and sulphuric acid plant at Sikka over next three years ending FY22 to be funded by debt equity ratio of 2.33:1. Further, GSFC is planning to develop a Jetty at Sikka in JV with Gujarat Maritime Board. In addition to this, GSFC has signed a License Agreement with Mitsui Chemicals Incorporation (MCI) for establishing a Methyl Metha Acrylate (MMA) plant of 64,000 MTPA capacity at Dahej, Gujarat. MMA is used in acrylic and paint industry. The project is expected to be funded by debt-equity ratio of 2.33:1.

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 challenged the OM before the Hon. High Court of Gujarat which has granted a stay order on the said OM. However, any significant recovery by DoF from mopping up of 'undue benefits' for ammonia produced using domestic gas, by Gol, could affect the company's credit metrics and will be crucial from credit perspective.

Event risk arising due to financial guarantee provided to TIFERT

GSFC had provided a sponsor guarantee for USD 41.1 million (proportionate to the shareholding of 15%) towards the borrowings of TIFERT. In March 2017, TIFERT had requested for re-scheduling of instalment due to its lenders. However, while the same was under discussion, an acceleration notice was served on TIFERT by its lenders on March 28, 2017. The loan instalment was immediately paid by TIFERT along with interest on March 31, 2017. However, on April 4, 2017 the lenders followed up with a call notice on TIFERT's shareholders towards the guaranteed amount. TIFERT has paid the subsequent instalments due as per schedule and the guarantee provided by GSFC has now expired on March 31, 2018.

As articulated by the company, TIFERT would be in a position to meet the debt obligations in future and it is unlikely that such an event of payment under guarantee amount will arise.

Analytical approach: Consolidated

CARE has adopted 'Consolidated' analytical approach for GSFC as there are strong operational & financial linkages among GSFC and its subsidiaries. Also, GSFC has actively started retail operations through its wholly owned subsidiary viz. GSFC Agrotech Ltd. through its retail stores. List of companies getting consolidated has been placed at **Annexure 3**.

Applicable Criteria

[Criteria on assigning 'outlook' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[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 75% to the total income of FY19, industrial products contributed the balance 25%. 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 and nylon 6 (N-6).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	6,346	8,576
PBILDT	649	838
PAT	474	493
Overall gearing (times)	0.15	0.15
Interest coverage (times)	12.64	13.73

A: Audited

As per Q1FY20 (Prov.) results, GSFC has reported a TOI of Rs.1731 crore with a PAT of Rs.42 crore vis-à-vis TOI of Rs.1789 crore with PAT of Rs.70 crore during Q1FY19 (Prov.).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	465.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	1500.00	CARE A1+
Fund-based - ST-Buyers Credit	-	-	-	1200.00	CARE A1+
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	465.00	CARE AA+; Stable	-	1)CARE AA+; Stable (19-Sep-18)	1)CARE AA+; Stable (29-Aug-17)	1)CARE AA+ (10-Aug-16)
2.	Non-fund-based - ST-BG/LC	ST	1500.00	CARE A1+	-	1)CARE A1+ (19-Sep-18)	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)
3.	Commercial Paper- Commercial Paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (19-Sep-18) 2)CARE A1+ (15-May-18)	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)
4.	Fund-based - ST-Buyers Credit	ST	1200.00	CARE A1+	-	1)CARE A1+ (19-Sep-18)	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)

Annexure-3: List of entities getting consolidated in GSFC

Name of entity	Extent of consolidation	% holding as on March 31, 2019
GSFC Agrotech Ltd	Full consolidation	100.00%
Gujarat Arogya Seva Pvt Ltd	Full consolidation	50.94%
Vadodara Enviro Channel Ltd	Equity method	28.57%
Gujarat Green Revolution Company Ltd	Equity method	46.87%
Karnalyte Resources Inc	Equity method	38.73%

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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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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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