

Mangalore Chemicals and Fertilizers Ltd

March 22, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/ Short-term Bank Facilities	2435 (enhanced from 2333.73)	CARE BBB+, Stable / CARE A3+ [Triple B Plus; Outlook: Stable/ A Three Plus]	Reaffirmed
Total Facilities	2435 (Rupees two thousand four hundred thirty five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mangalore Chemicals & Fertilizers Ltd (MCFL) takes into account the improvement in its financial risk profile as reflected in its strong revenue growth and improved profitability backed by its increasing operational efficiencies. The ratings continue to derive strength from its strong parentage, being part of the Adventz group which has business interests in diverse sectors and financial & operational synergies with other companies of the Adventz group in the fertilizer business. The ratings further factor in the MCFL's established position in the Southern states of India, diversified product range and wide customer base. These ratings strengths are, however, partially off-set by leveraged capital structure, high dependence on fertilizer subsidy receivable from the government and highly regulated fertilizer industry.

Going forward, the ability of the company to maintain the conversion efficiency on a sustainable basis, commissioning of the gas pipeline and timely receipt of subsidy from the government along with the execution of the planned debt funded capex for energy savings project within the envisaged cost and time without adversely impacting its capital structure shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Part of resourceful and diversified group: MCFL is a part of the Adventz group which has interests in varied sectors including agri-inputs, engineering, infrastructure, real estate, consumer durables and services sectors. The Adventz Group was founded by late Mr. K.K Birla. The faction led by Mr Saroj Kumar Poddar, is a well diversified conglomerate with four major industry verticals- Agriculture, Engineering & Infra, Lifestyle & Real Estate and Services. As part of the Adventz group, MCFL benefits from centralized procurement of key raw materials at 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 line of business. The company also benefits from the healthy financial flexibility of the Adventz group.

Established track record of the group in fertiliser and other agri-businesses: Adventz group has a strong presence in the fertilizer sector through MCFL, Zuari Agro Chemicals Limited (ZACL holds 53.03% stake in MCFL) and Paradeep Phosphates limited (PPL). The companies are engaged in manufacturing of urea as well as DAP/NPK fertilisers along with water soluble fertilisers (WSF) and Single Super Phosphate (SSP). The group also undertakes trading of various fertilisers to provide wide range of agri products to the farmers. The cumulative capacity for fertilizers for all the three companies is approximately 32.74 Lakhs MTPA (ZACL: 14 Lakhs MTPA , MCFL : 6.7 Lakhs MTPAS, PPL: 12 Lakhs MTPA). Cumulatively the three companies have strong market position and a wide distribution network, with ZACL operating in western parts of the country while MCFL in southern and PPL in south eastern parts of the country, thereby providing geographical diversification for the group.

Improvement in financial Profile:

Financial risk profile of the company is characterized by a 10% y-o-y increase in operating income (from Rs.2489.85 crore in FY17 to Rs.2732.32crore in FY18) of the company and improvement in the PBILDT margin primarily because of saving in energy consumption in urea operations (MCFL's actual energy consumption has been lower than the applicable norm of 6.902 Gcal/MT for its plant) along with improved operational performance. The PAT margin has improved to 2.22% for FY18 as compared to 0.78% for FY17 on account significant saving in interest cost due to availability of cheaper debt, leading to a healthy growth in Gross cash accruals from Rs.65.39 crore in FY 17 to Rs. 112.04 crore in FY18. MCFL's

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

improved operational performance in FY18 was also driven on the back of healthy volume growth in fertilizers, efficient raw material procurement. Also since investment for natural gas project was completed in June 2014 the pre-set energy norm of 7.356 Gcal/ MT will be made available to MCFL when it starts operating on natural gas which is estimated to be from April 2019. The company reported an operating income of Rs.2054.75 crore and a PAT of Rs.38.83 crore during 9MFY19 (refers to the period from April 1 to December 31).

Established position and wide customer base: MCFL is one of the leading companies catering to the fertilizer markets in Southern India. About 60% of the company's products are sold in the state of Karnataka, which meets about 20% of the needs of the farmers. MCF has a wide customer base and the top 10 customers account for less than 10% of the total operating income.

Long track record of operations in fertilizer industry: MCFL was incorporated in July 1966, as a private limited company under the name Malabar Chemicals & Fertilizers Pvt. Ltd and was converted into a public company in 1967 and subsequently in 1971, the name of the company was changed to the present one. The company went public in 1972. MCF commenced production of Ammonia & Urea in 1976 and subsequently diversified to other complex fertilizers over the years.

Key Rating Weaknesses

Leveraged capital structure: The overall gearing remained almost similar at 3.29x as on March 31, 2018 from 3.31x as on March 31, 2017 due to increase in subsidy receivables (Rs. 818 crore as on March 31, 2018 from Rs. 679.16 crore as on March 31, 2017) from government leading to a higher reliance on working capital borrowing. The company also plans to undertake capital expenditure for energy savings projects in the next couple of years in order to comply with energy efficiency norms which will be applicable to the company going ahead.

Highly regulated fertilizer industry: GoI subsidizes the sale of fertilizers and exercises control over distribution to a large extent. 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 scheme and the MRP is decided by the government. This makes the fertilizer companies and their profitability vulnerable to timely receipt of subsidy.

Project Risk associated with Energy Improvement Project: The company is planning to undertake an Energy Improvement Project (EIP) to further reduce the energy consumption for the manufacturing of Urea, at a total cost of Rs.350 Crore (approx.) with an estimated debt funding of Rs.244.52 Crore and the remaining from the internal cash generations. The project is expected to be commissioned in the financial year 2020-2021. The ability of the company to execute the energy saving project within the envisaged cost and time without adversely impacting its capital structure will continue to be a key rating sensitivity.

Analytical approach: Standalone

Applicable Criteria

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

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

[CARE's Methodology for fertilizer companies](#)

[CARE's methodology for Factoring Linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Mangalore Chemicals & Fertilizers Limited (MCFL) was a subsidiary of Zuari Fertilisers and Chemicals Limited (ZFCL). ZFCL held 53.03% total voting rights in MCFL. Pursuant to the amalgamation of ZFCL with Zuari Agro Chemicals Limited (ZACL), MCFL has become direct subsidiary of ZACL w.e.f. November 13, 2017 and accordingly ZACL holds 53.03% total voting rights in MCFL.

ZACL in turn is an associate company of the flagship holding company of the Adventz group – Zuari Global Ltd (ZGL) holding 32.08% (20% directly and 12.08% through a wholly owned subsidiary i.e Zuari Management Services Limited (ZMSL)) stake in ZACL as on March 31, 2018. Zuari Agro Chemicals Limited constitutes the fertiliser operations of the Adventz Group following the demerger of Zuari Industries Limited (ZIL) business, fertiliser business was put into Zuari Holdings Limited (later renamed as ZACL), while the residual entity ZIL (later renamed as Zuari Global Limited) retained the non-fertiliser business operations and investments.

MCFL is one of the largest manufacturers of chemical fertilizers in the state of Karnataka with an aggregate installed capacity of 6.74 lakh metric tons per annum (MTPA). The company has a wide range of products that include Urea

(capacity: 3.79 lakh MTPA), Di-Ammonium Phosphate (along with other P&K fertilizers – with capacity of 2.55 lakh MTPA) and Muriate of Potash, Granulated Fertilizers, Micronutrients, Soil Conditioners and Specialty Fertilizers. The company sells its product under the brand “Mangala”.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2489.85	2732.32
PBILDT	181.82	206.76
PAT	19.41	60.58
Overall gearing (times)	3.31	3.29
Interest coverage (times)	1.57	2.30

A: Audited

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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(Kindly refer our rating rationale for entity published on November 2, 2018)

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

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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-Term Loan	-	-	March 2024	283.21	CARE BBB+; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	2151.79	CARE BBB+; Stable / CARE A3+

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-Term Loan	LT	283.21	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Oct-18) 2)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (18-May-17)	1)CARE BBB- (25-Apr-16)	-
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	2151.79	CARE BBB+; Stable / CARE A3+	1)CARE BBB+; Stable / CARE A3+ (03-Oct-18) 2)CARE BBB; Stable / CARE A3 (06-Apr-18)	1)CARE BBB; Stable / CARE A3 (18-May-17)	1)CARE BBB- / CARE A3 (25-Apr-16)	-

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