

## Mangalore Chemicals and Fertilizers Ltd

April 6, 2018

### Ratings

| Facilities                               | Amount<br>(Rs. crore)  | Rating <sup>1</sup>   | Rating Action |
|--|--|---|---------------|
| Long-term/ Short-term<br>Bank Facilities | 2435<br>(Rupees two thousand four hundred and<br>thirty five crore only) | CARE BBB; Stable / CARE A3<br>[Triple B; Outlook: Stable/ A<br>Three] | Reaffirmed    |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mangalore Chemicals & Fertilizers Ltd (MCF) continue to factor in 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 also favorably consider MCF'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 government and highly regulated fertilizer industry

Going forward, the ability of the company to improve capacity utilization on a sustainable basis, timely receipt of subsidy from the government and no adverse impact on the capital structure in view of planned debt funded capex for energy savings project will remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Part of resourceful and diversified group:** MCF is a part of the Adventz group which has interests in agri-inputs, engineering, infrastructure, real estate, consumer durables and services sectors. The flagship company of the group, Zuari Ago Chemicals Ltd (ZACL) also acts as a holding company for the group companies engaged in manufacturing of fertilizers while the non-fertilizers business are under another subsidiary Zuari Global Ltd (ZGL). As part of this group, MCF benefits from centralized procurement of key raw materials and traded goods, a wider distribution network, and better cost efficiencies. Moreover, it is also supported by the healthy financial flexibility of the Adventz group.

**Established position and wide customer base:** MCF is also one of the leading companies catering to the 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:** MCF 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.

**Improved operational performance:** MCF's improved operational performance in FY17 was driven on the back of healthy volume growth for complex fertilizers, efficient raw material procurement at group level (Adventz group's relatively better negotiation power with suppliers) and savings in fixed overheads as a result of integrated operations with Adventz group leading to improved profitability in FY17. Further MCF has renegotiated lower interest rates in the current financial year which has substantially reduced finance cost during 9MFY18 coupled with healthy internal accruals.

#### Key Rating Weaknesses

**Leveraged capital structure:** The overall gearing, although improving, continues to remain high at 3.31x as on March 31, 2017 as compared with 4.04x as on March 31, 2016. The high working capital borrowing is directly correlated with the delay in receipt of subsidy. 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 also result in the gearing levels remaining at elevated levels.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**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.

**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

MCF 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) | FY16 (A) | FY17 (A) |
|------------------------------|----------|----------|
| Total operating income       | 2971.39  | 2512.11  |
| PBILDT                       | 114.62   | 181.49   |
| PAT                          | -241.71  | 19.52    |
| Overall gearing (times)      | 4.04     | 3.31     |
| Interest coverage (times)    | 1.00     | 1.53     |

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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

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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       | -                | -           | -             | 302.36                        | CARE BBB; Stable                          |
| Fund-based - LT/ ST-Cash Credit | -                | -           | -             | 2132.64                       | 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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1.      | Fund-based - LT-Term Loan              | LT              | 302.36                         | CARE BBB; Stable           | 1)CARE BBB; Stable (18-May-17)            | 1)CARE BBB- (25-Apr-16)                   | -   | -   |
| 2.      | Fund-based - LT/ ST-Cash Credit        | LT/ST           | 2132.64                        | CARE BBB; Stable / CARE A3 | 1)CARE BBB; Stable / CARE A3 (18-May-17)  | 1)CARE BBB- / CARE A3 (25-Apr-16)         | -   | -   |

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CIN - L67190MH1993PLC071691