Rashtriya Chemcials and Fertilizers Limited

October 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Commercial Paper	3,000.00 (Rs. Three thousand crore only)	CARE A1+ (A One Plus)	Reaffirmed

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the commercial paper of Rashtriya Chemicals & Fertilizers Limited (RCF) continues to derive strength from the established position of RCF in the domestic fertilizer industry, diverse product portfolio (Urea, complex fertilizers and industrial Chemicals), and both the plants operating at optimum capacity. The rating also favorably factors in strategic position of RCF due to high (75%) equity stake held by the Government of India (GoI), which also imparts high financial flexibility to it.

The rating also factors in the increase in fixed cost compensation by Rs. 350/MT with retrospective effect from April 2014, approved by the Department of Fertilizers (DoF) vide notification dated March 30, 2020, which shall result in increased income by ~Rs.100 crore annually going forward for RCF for production upto the reassessed capacity. RCF's units have maintained healthy energy efficiency in the past with energy consumption being lower than the prescribed norms by GoI which resulted in healthy operating profitability. However, recent tightening of energy norms in Trombay (to 6.5 Gcal/MT from 8.54 Gcal/MT) would result in moderated profitability levels until RCF successfully completes energy efficiency improvement capex at Trombay. CARE notes that RCF has planned capex of ~Rs. 700 crore in the next three years and is also required to invest ~Rs.2100 crore over the same period in its JV's and foreign projects which shall keep its debt at elevated levels thus, resulting in moderate overall gearing going forward.

The lockdowns imposed on the back of CoVID-19 had a limited impact on the operating performance of RCF on account of the essential nature of the products sold by it. CARE notes that, good monsoons coupled with increased support extended by the Government to the farmers have resulted in increased demand for fertilizers which shall favourably impact RCF's operations. The rating takes cognizance of the high subsidy receivable from GoI of Rs. 2,693.83 crore as on September 30, 2020, leading to high dependence on short term borrowing to meet the working capital requirement. CARE believes that decrease in the subsidy budget for FY21 coupled with backlog of subsidy from the previous year and increased burden on the exchequer on account of the pandemic may result in significant subsidy backlog towards the end of this financial year as well. However, steep decline in pooled gas prices from the beginning of FY21 shall result in a reduction in the subsidy payable and thus provide some relief to the Government.

The rating continues to be partially tempered by risk on account of regulated nature of the fertilizer industry, volatility of prices and supply of imported raw materials, fluctuations in foreign exchange rates and cyclicality associated with other industrial chemicals.

Rating Sensitivities

Positive Factors:

- Sustained improvement in working capital position, leading to reduced reliance on short term borrowings thereby leading to improvement in interest coverage above 4.00x on a sustained basis

Negative Factors:

- Dilution in the equity stake of GoI below 51%
- Interest coverage deteriorating below 1.70x on a sustained basis
- Total debt/ PBILDT increasing above 7x on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

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

In terms of manufacturing capacity, RCF is third largest producer of Urea in India. Further, RCF holds market share of around 7% for urea sales in India (3rd largest). RCF caters to demand of around 21 states from its multi-location manufacturing facilities located in Maharashtra.

RCF operations are marked by high level of vertical integration across both fertilizers and industrial chemical products division Its diverse product profile with revenues comprising of fertilizers: urea, complex fertilizers, traded fertilizers and industrial chemicals coupled with the flexibility to change its product mix in accordance with market conditions offers

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

stability to revenues. RCF has established brand names namely 'Ujjwala' (for urea) and 'Suphala' for (for complex fertilizers) and operates with a dealer distributor network of over 6000 points of contact.

Operating at optimum capacity with healthy energy efficiency

RCF has maintained high operating efficiency at Thal and Trombay plants with capacity utilization of over 100% over the past few years. The energy consumption continues to remain lower than the preset norm, GoI announced in the New Urea Policy 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 manufacturing unit. In accordance with the New Urea Policy, 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 5.987 Gcal/MT in FY20. For the Trombay unit, the new norm of 6.5 Gcal/MT has been implemented from October 1, 2020 and as such RCF is undertaking capex to meet the norms. In Q1FY21, energy efficiency at both the plants was impacted on account of temporary shutdown due to CoVID-19. As of now, energy consumption at Trombay is marginally below the prescribed norm. Successful and timely completion of the capex (aimed at improving energy efficiency) at Trombay shall be a key rating monitorable.

Moderate financial performance in FY20

RCF's consolidated total operating income has seen a stable growth of ~9% YoY in FY20 primarily due higher trading income. Q1FY21, was marked by temporary shutdown of both its units till April 20, 2020 post which operations commenced in a phased manner. As RCF's products are essential in nature, the units have been operating smoothly with capacity utilization levels currently at 100%. A good monsoon, coupled with increased support extended by the Government to the farmers has led to an increase in acreage and therefore higher demand for fertilizers in the current financial year, which shall accrue favourably for RCF.

Further, with revision in fixed cost compensation by Rs.350/MT with effect from April 2014 as announced by Department of Fertilizers (DoF) for urea manufacturing companies, as such, in Q4FY20, RCF booked subsidy income of Rs. 342.92 crore with retrospective effect. Going forward, RCF shall be entitled to an annual increase in fixed cost compensation of ~Rs. 100 crore annually, which shall also support its operating profitability. Operating profitability was adversely impacted in FY20 on account of breakdowns and stabilization issues at its plants. However, stabilization of operations and improvement in operating margins in the industrial chemicals division are likely to result in improved operating margins in FY21.

Comfortable financial risk profile, notwithstanding the deterioration on account of increased reliance on short term debt to fund the increased receivable position from GoI

The leverage position of RCF is a factor of the (timely) receipt of government subsidy towards the various fertilizers sales. Majority of the debt on books is toward funding short term working capital requirement arising out of delay in receipt of fertilizer subsidy. While receipt of subsidy was more or less regular till December 2019, from January 2020 onwards RCF has been experiencing delays in subsidy receipts, leading to built-up of subsidy receivables as subsidy budget for the year has got exhausted with GoI. Further, RCF carried out import of Urea on behalf of GoI which has added to its receivable position owing to delays in settlement of the same by GoI.

Subsidy flow has been steady in H1FY21 with outstanding subsidy position reducing from Rs. 4,248.14 crore as on March 31, 2020 to Rs. 2,693..83 crore as on September 30, 2020.

The long term debt availed by RCF is largely towards the capex undertaken for achieving the government mandated energy efficiency norms. RCF is required to make substantial investment in Talcher Fertilizers Limited, a JV between RCF (29.67%), Gas Authority of India Limited (GAIL; 29.67%), Coal India Limited (CIL; 29.67%) and Fertilizer Corporation of India Limited (FCIL; 10.99%). This investment is towards revival of FCIL's fertilizer unit in Talcher by establishing and operating coal gasification based fertilizer complex. CARE shall continue to monitor the developments of the project in terms of timelines of investments and its progress.

Key Rating Weaknesses

Exposure to highly regulated industry and agro-climatic risks which may result in reduced profitability

Though, the fertilizer Industry is strategic for the Indian government, it is highly controlled industry and the profit margins may vary depending on any new government regulations. Also, RCF's operating profitability depends upon timely subsidy receipt from GoI. Further, in case of P&K fertilizers, the subsidy remains capped and increase in gas prices may affect the profitability of the company however, RCF is at liberty to increase the final price of the complex fertilizers as that is not controlled by GOI. Further, agro-climatic risks may also reduce the revenues and delay the receipt of subsidies for the fertilizer companies.

Cyclicality in Industrial Chemical business

RCF also manufactures ~20 Industrial chemicals which contribute around 11-12% of 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 from Q2FY20 to Q4FY20 on account of operational issues as well as non- competitive international prices, the division has turned around in Q1FY21 and has reported a positive PBIT.

Event risk arises due to order issued by DoF to recover undue benefits earned by P&K fertilizer producers using cost effective domestic gas as feedstock

Department of Fertilizers (DoF) issued office memorandum (OM) on January 6, 2014 to GSFC and RCF for recovery of undue benefits on account of usage of cost effective 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. The matter is pending with Inter ministerial committee (IMC) for deliberation. Pending such decision, initially subsidy amount of Rs. 198.94 crore was withheld. As per DoF approval for release of this subsidy, upon submission of claims along with bank guarantee for equivalent amount, the entire amount of Rs.198.84 crore has been received by RCF. Further, Ministry of Petroleum & Natural Gas (MoPNG) vide its order dated December 16, 2015 had directed GAIL India Ltd to levy higher gas price for gas consumed for non-urea operations. As per the management, the matter is still ongoing and is expected to be in favour of the company. However, significant recovery from mopping up of gains (either prospective and/ or retrospective) for ammonia produced using domestic gas, by GoI, could affect the company's credit metrics is an event based risk and would be crucial from credit perspective. The matter is also pending with IMC for decision. However, pending finalization of the price payable, RCF is recognizing liability based on the difference between domestic gas price and pool price/ market price for its non- urea operations. Accordingly, there is no impact for FY19 but it has recognized liability of Rs. 211.79 crore for the period June 1, 2015- March 31, 2020.

Any significant recovery from mopping up of gains (either prospective and /or retrospective) for ammonia produced using domestic gas by GoI could affect RCF's credit metrics and would be crucial from credit perspective.

Liquidity: Strong

Strong liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Its bank limits were utilized to the extent of 38% on an average in the 12 month ending August 2020 and it also raises funds through commercial paper from time to time at very low rates. Additionally, the Government provides a Special Banking Arrangement when the subsidy payments are being delayed wherein, GOI bears a substantial portion of the interest on the loan.

Analytical approach: Consolidated as RCF is supporting its Joint Ventures namely Urvarak Videsh Limited, FACT RCF Building Products Limited and Talcher Fertilizers Limited. These joint ventures are in similar line of business. Further, the ratings also factor in substantial ownership by Government of India and the support it receives by virtue of the strategic importance of the company to GoI.

Applicable Criteria

CARE's Policy on Default Recognition
Criteria on liquidity analysis of non- financial sector companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies
Factoring Linkages in Ratings
Rating Methodology – Fertilizer Companies
Notching by factoring linkages with Government

About the Company

Rashtriya Chemicals and Fertilizers Limited (RCF) was incorporated in year 1978 following the reorganization of the erstwhile Fertilizer Corporation of India Ltd. Government owned (Government of India has 75% equity stake), RCF is one of the leading fertilizer manufacturer in India and operates with two manufacturing facilities located at Thal (Raigad district) and Trombay (near Mumbai). Thal unit primarily focuses on manufacturing of Urea and has capacity to manufacture 2.00 Million Metric Tonnes Per Annum (MMTPA) of Urea, while Trombay unit operates with Urea capacity of 0.33 MMPTA and other complex fertilizers 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 fertilizer inputs like, Di-ammonium Phosphate (DAP), Muriate of Potash (MOP) & NPK (Nitrogen, Phosphorus and Potassium) fertilizers.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)
Total operating income	8,976.97	9,828.37	1,649.64
PBILDT	485.98	687.27	126.43
PAT	134.08	207.13	19.20
Overall gearing (times)	1.14	1.52	Not available
Interest coverage (times)	2.11	2.87	2.25

A: Audited; UA: Unaudited

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper (Standalone)	-	-	-	7-360 days	3000.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper-Commercial Paper (Standalone)	ST	3000.00	CARE A1+	-	1)CARE A1+ (27-Feb-20) 2)CARE A1+ (01-Oct-19)	1)CARE A1+ (08-Jan-19) 2)CARE A1+ (16-Jul-18)	1)CARE A1+ (28-Nov-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure – 5: List of entities which have been consolidated:

Sl. No.	Name of the company	% shareholding
1	FACT RCF Building Products Limited	50%
2	Urvarak Videsh Limited	33.33%
3	Talcher Fertilizers Limited	33.33%

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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