Rashtriya Chemicals & Fertilizers Limited

October 01, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Commercial Paper	**2,000.00 (Rs. Two thousand crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the Commercial Paper (CP) Issue 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 with healthy energy efficiency parameters. 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 above mentioned rating strengths are 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.

The rating takes cognizance of the substantial increase in RCF's subsidy receivables from GoI to Rs.4,200 crore as on March 31, 2019, leading to increased dependence on short term borrowing to meet the working capital requirement resulting in deterioration of leverage and coverage indicators as on March 31, 2019. However, post approval of the subsidy budget, RCF has collected a significant amount of the outstanding subsidy, bringing it to Rs.2,725 crore as on August 31, 2019. Consequently, working capital utilization has also reduced thereby leading to improvement in leverage and coverage indicators.

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.

Going forward, higher than envisaged debt funded capital expenditure to achieve targeted energy consumption norms or investments in joint venture business or a substantial increase in subsidy receivables leading to increased reliance on short term borrowing with resultant impact on the company's capital structure will remain key rating sensitivities.

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, as per the latest available urea dispatch data (for FY18 & H1FY19), RCF holds market share of around 8.30% 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 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 and 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

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

its Thal unit and accordingly energy efficiency has improved from 5.922 Gcal/ MT in FY18 to 5.645 Gcal/MT in FY19. For the Trombay unit, the new norm of 6.5 Gcal/MT shall be implemented from March 31, 2020 and as such RCF is undertaking capex to meet the norms. Timely completion of the capex with no additional debt over and above that envisaged by RCF shall be a key rating monitorable.
Further, RCF plants are eligible to get an increase in the fixed cost of urea by Rs. 350/MT. However, as the policy notification remains delayed, RCF has not factored this increased fixed cost while finalizing its books of accounts for the period FY15 to FY19.

Marginal improvement in operating profitability in FY19 on account of better realisations in complex fertilizers, industrial products and traded products
RCF's operating margins (EBITDA) margins improved from 4.03% in FY18 to 5.41% in FY19 primarily led by higher realisations in complex fertilizers, industrial products and traded products. Reduction in energy norms of Urea at Thal impacted the profitability. However, the same was partially offset by energy efficiencies achieved due to various energy schemes undertaken to reduce energy consumption. Further, FY19 witnessed steep increase in pool price of gas for urea though, IPP of urea also increased, it was not in proportion to the increase in cost of gas. As such profitability on production of Urea above RAC declined, impacting the overall profitability of RCF.

Comfortable financial risk profile, notwithstanding slight deterioration in the past on account of increased reliance on short term debt to fund the increased subsidy receivable position
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. During FY19, there was a substantial built up subsidy receivables as subsidy budget for the year had got exhausted. This built up of receivables got extended account of delay in approval of subsidy budget for FY20. However, after declaration of subsidy budget for FY20, RCF has received a substantial amount which has resulted in reduction in short term borrowing. CC utilization reduced to 1.39% in the month of August 2019 as against an average utilization of ~50% during April 2019 to July 2019.
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.

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 alongwith bank guarantee for equivalent amount by RCF, an amount of 187.48 crore was received upto September 30, 2019. Further, Ministry of Petroleum & Natural Gas (MoPNG) vide its order dated December 16, 2015 has directed GAIL India Ltd to levy

higher gas price (the highest rate of RLNG used for urea production of urea) 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, 2019.
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: Adequate
Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Its capex requirements are expected to be funded using debt of Rs. 568 .11 Crore in FY20 for which it has sufficient headroom. Its bank limits are utilized to the extent of 50% and it also has CP limit of Rs.2000 crore (outstanding was Rs. 1300 crore as on September 16, 2019 i.e. 65% utilized). Normally, whenever there is stress in government owned urea companies owing to delay in fertilizer subsidy been released from the government, banking channels provide a special window for discounting the fertilizer receivables which act as liquidity cushion. 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 for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies
Factoring Linkages in Ratings
Rating Methodology – Fertilizer Companies

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-4*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	Q1FY20 (UA)
Total operating income	7,375.28	8,976.97	2,434.39
PBILDT	297.58	485.98	111.79
PAT	78.82	134.08	7.98
Overall gearing (times)	0.45	1.14	Not available
Interest coverage (times)	2.40	2.11	1.80

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7 – 360 days	2000.00	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.	Commercial Paper	ST	2000.00	CARE A1+	-	1)CARE A1+ (08-Jan-19) 2)CARE A1+ (16-Jul-18)	1)CARE A1+ (28-Nov-17)	-

Annexure 3: List of subsidiaries/ JV's considered for consolidation

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%

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

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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