Rashtriya Chemicals and Fertilizers Limited

February 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	3,000.00 (enhanced from 2,000.00) (Rs. Three thousand crore only)	CARE A1+ (A One Plus)	Reaffirmed

Detailed Rationale & Key Rating Drivers

The 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. 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 takes cognizance of the substantial increase in RCF's receivables from GoI to Rs. 5,501.36 crore as on January 31, 2020, leading to increased dependence on short term borrowing to meet the working capital requirement resulting in deterioration of leverage and coverage indicators. Part of the increase in receivables is on account of delay in receiving subsidy payment from GoI on account of exhaustion of subsidy budget for FY20 and the rest was on account of trading in fertilizers worth Rs. 2,400 carried out by RCF on behalf of GoI. However, CARE believes that this situation is expected to improve from April 2020 onwards after the receipt of amount sanctioned in the Budget of FY21 for the Fertilizer Department.

The rating also factors in the deterioration in RCF's 9MFY20 operating and financial performance on account of extended shutdown at both Thal and Trombay plant for product stabilization issue which adversely impacted operating efficiency and lower operating profitability. The performance was also impacted by steep decline in import prices of industrial chemicals in Q2FY20 and Q3FY20 leading to decline in revenue and profitability of this division. CARE notes that the operations at both of its plants have now stabilized and going forward, operating efficiencies are expected to be relatively better.

The rating is also 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.

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.

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:

- 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 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.

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

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 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.

Moderation in operating profitability in 9MFY20 on account of lower operating efficiencies at its plants and lower realisations in industrial products

RCF's operating margins (PBILDT) margins deteriorated marginally from 5.50% in 9MFY19 to 4.02% in 9MFY20 primarily led by two factors viz. 1) extended shutdown at both the Thal and Trombay plants on account of technical hiccups, adversely impacting its overall operating efficiency thus, leading to lower operating profitability and 2) steep decline in import prices of industrial chemicals in Q2FY20 and Q3FY20 leading to decline in revenue and profitability of this division.

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 one- time trading of fertilizers on behalf of GoI which has added to its receivable position.

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 bank limits were utilized to the extent of 42% on an average in the 12 month ending January 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 for Short Term Instruments
Financial ratios – Non-Financial Sector
Consolidation and 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-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	7,375.28	8,976.97	7,162.81
PBILDT	297.58	485.98	287.64
PAT	78.82	134.08	64.75
Overall gearing (times)	0.45	1.14	Not available
Interest coverage (times)	2.40	2.11	1.83

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	-	-	-	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 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	3000.00	CARE A1+	1)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: 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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact- 1
Mr. Kunal B Shah
Contact no.- 91-22-67543451
Email ID- kunalb.shah@careratings.com

Analyst Contact- 2
Mr. Padmanabh Sanjeev Bhagavath
Contact no.- 91-22-67543407
Email ID- ps.bhagavath@careratings.com

Relationship Contact
Mr. Saikat Roy
Contact no.: : +91-22-6754 3404
Email ID: saikat.roy@careratings.com

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.