January 31, 2022

Chambal Fertilisers & Chemicals Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	4,500.00	4,500.00	[ICRA]A1+ reaffirmed
Total	**4,500.00**	**4,500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in the established position of Chambal Fertilisers & Chemicals Limited (CFCL) as the third largest urea manufacturer in the domestic market, stable demand outlook for fertilisers, and high import dependence for urea in the country along with energy efficient urea operations of the company. The rating also factors in the healthy operational performance of CFCL's urea operations and the strong policy support for its G-III plant under New Urea Investment policy-2012 (NIP-2012). The rating also factors in the improvement in the credit profile of the company driven by the clearance of the subsidy backlog by the GoI in FY2021 and timely release of subsidy in YTD FY2022, which has resulted in decline in CFCL's short term borrowings to zero. The gross leverage (Total Debt/OPBDITA) improved to 1.3x by the end of H1 FY2022 as against 1.6x at the end of FY2021 and 4.6x at the end of FY2020 and the interest coverage improved to 23.9x in H1 FY2022 vis-à-vis 8.9x in FY2021. The credit metrics are expected to remain healthy given healthy cash generation, limited capex program and timely inflow of subsidy receipts from GoI which will keep the working capital borrowings nil to low. ICRA also notes the healthy financial flexibility of the company. While urea operations continue to remain stable, CFCL 's trading operation has witnessed contraction in YTD FY2022 driven by limited availability of Di-Ammonium Phosphate (DAP) and weak contribution on sale of traded products.

The rating also factors in the vulnerability of the performance of CFCL to agro-climatic conditions, regulatory risks, and vulnerability of credit profile to the fertiliser subsidy budgeting by the GoI.

ICRA take note of the Rs. 1,170 crore capex announced by CFCL for setting up of 2,20,000 MTPA Technical Ammonium Nitrate (TAN) capacity and 1,80,000 MTPA weak nitric acid capacity at its Kota facility. The project capex to be executed over the next 36 months. The funding pattern and other details of the project are yet to be finalised and will remain a monitorable going forward.

Key rating drivers and their description

Credit strengths

Established position of CFCL in the domestic fertiliser industry: CFCL is the largest private sector urea manufacturer with 3.00 MMTPA of installed capacity and third largest urea player in the country. CFCL has ~11% market share in urea segment (as per 8M FY2022 sales). CFCL has been growing its trading portfolio also with a market share of 5% (as per 8M FY2022 sales) and has cemented its position as one of the leading players of the fertiliser sector with total fertiliser volume sales of ~3.15 MMT (including urea and non-urea fertilisers in 8M FY2022). A strong marketing network comprising of nearly ~3,645 dealers enables CFCL to reach a wide farmer base and reduces the marketing risk for the trading segment.

Favourable demand-supply scenario of urea in India due to price differential with non-urea fertilisers: Post implementation of the Nutrient Based Subsidy (NBS) in 2010 for non-urea fertilisers there has been a significant price differential between urea and P&K fertilisers which has resulted in farmers showing preference for urea due to lower price. The total domestic production in 8M FY2022 was around ~12.8 MMT, as against domestic demand of ~19.8 MMT which resulted in significant dependence on imports to meet the shortfall. Thus, the demand risk for indigenous urea remains low.

Healthy energy efficiency and capacity utilisation levels of the urea units; stable cash generation from urea: CFCL's urea plants continue to remain one of most energy efficient urea plants in the country and are competitive against imported urea as well. The plants have also been able to maintain healthy capacity utilisation levels for the past several years along with energy consumption remaining well below the normative norms defined by the fertiliser policy from time-to-time aiding profitability. With the commissioning of the brownfield expansion of urea in January 2019, the cash generation from urea operations have increased significantly from FY2020 onwards, owing to the strong policy support from New Urea Investment Policy-2012 (NIP-2012) assuring a floor of 12% and ceiling of 20% on post-tax Return on Equity (RoE). The cash generation from urea operations is expected to remain stable going forward supported by strong operational performance and policy support.

Strong policy support from NIP-2012 for the brownfield expansion: CFCL operationalised 1.27 MMTPA of its urea brownfield expansion in January 2019 under the New Urea Policy-2012 (NIP-2012). The policy offers a pass-through of increase in gas prices by raising urea prices by $2/MT with every $0.10/mmbtu rise in the gas price (up to $14.0/mmbtu). At each level of gas price (between USD 6.5/mmbtu to USD 14/mmbtu), different floor and ceiling prices are designed to achieve between 12% and 20% post-tax return on equity (RoE) respectively, these being the theoretically minimum and maximum return. The Cabinet Committee on Economic affairs (CCEA) had amended NIP-2012 by replacing the clause for "guaranteed buyback" by domestic production by companies in October 2014, exposing these projects to off-take risk in case international urea prices were to decline significantly. However, the intent of the GoI to continue the prevalent practice of first off-taking entire domestic production before resorting to import should partly mitigate this risk. CFCL has been operating G-III at around 100% capacity utilisation since January 2019 and the same is expected to continue going forward as well, which should result in strong cash generation going forward.

Healthy financial flexibility on account of large bank limits and standing among investors: CFCL benefits from healthy financial flexibility in terms of its ability to raise funds at highly competitive rates in a short period of time and large unutilised bank limits as the company largely relies on commercial paper to reduce the interest outgo.

Healthy financial risk profile post clearance of subsidy backlog by GoI in FY2021: Post the clearance of the subsidy backlog by the GoI in FY2021 and timely release of subsidy release by the GoI in YTD FY2022 amid adequate budgetary allocation, the working capital borrowings have remained nil for the company since March 2021. The financial leverage (Gross Debt/OPBDITA) has moderated to 1.3x by the end of H1 FY2022 from 1.6x by the end of FY2021 and 4.6x by the end of FY2020. The interest coverage has also improved to 23.9x in H1 FY2022 from 8.9x in FY2021 and 4.1x in FY2020. With the expectation of the subsidy allocation by the GoI to be adequate to meet the subsidy outgo in FY2023 as well and healthy cash generation from the urea operations, the financial risk profile of CFCL is expected to remain healthy in the near to medium term.

Credit challenges

Risks emanating from policy formulation and agro-climatic conditions for the profitability of the fertiliser sector: Profitability of the fertiliser sector remains vulnerable to agro climatic conditions as a major part of the country is still dependent on monsoon. Profitability of the sector also remains vulnerable to the regulatory policies of GoI as has been witnessed by delay in the revision and payout of the fixed costs for the urea units.

Vulnerability of credit profile to subsidy budgeting by the GoI- CFCL's credit profile will remain vulnerable to the adequacy of subsidy budgeting by the GoI. While currently the subsidy allocation remains adequate, going forward any mismatch on the fertiliser subsidy allocation by the GoI may lead to development of subsidy backlog and thus higher working capital requirements.

Liquidity position: Strong

CFCL's liquidity position is expected to remain strong in the near to medium term with current cash generation expected to be sufficient to comfortably meet the incremental working capital requirements, term debt repayments and regular maintenance capex. Currently, the entire working capital line of ~Rs. 4000 crores remain unutilized amid timely inflow of subsidy from the GoI, which along with cash balances of Rs. 808.5 crore as on Sep 30, 2021, provide further liquidity cushion. CFCL's ability to access capital markets at short notice and at highly competitive rates supplements its liquidity position as well.

Rating sensitivities

Positive factors – NA

Negative factors – Rating could be downgraded in case of lower-than expected capacity utilisation of urea operations resulting in lower cash accruals which will weaken the debt servicing capability of CFCL. Ratings would also face downward pressure in a scenario of stretching working capital cycle owing to delay in the subsidy receivables by the GoI.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings for CFCL are based on standalone financials of the company

About the company

Chambal Fertilisers & Chemicals Limited (CFCL) was promoted by Zuari Industries Limited, a K.K. Birla Group company, in 1985. The company has two urea manufacturing units at Gadepan (Kota, Rajasthan), both based on natural gas feedstock. The total installed capacity of both units is 1.73 million metric tonnes per annum (MMTPA); however, the company has an actual production capacity of ~2 MMTPA post the partial de-bottlenecking undertaken in CY2009. The company commissioned 1.27 MMTPA of urea capacity at its Kota facility taking the overall production capacity to ~3.0 MMTPA. CFCL is India's largest private sector manufacturer of urea. The plant is being supplied natural gas through the Hazira-Vijaypur-Jagdishpur (HVJ) gas pipeline of GAIL. The company is also involved in trading of agri-inputs such as complex fertilisers (DAP, MOP, SSP), pesticides, seeds, etc. CFCL also has a 33.33% stake in Indo Maroc Phosphore SA (IMACID), Morocco, a major producer of phosphoric acid while other subsidiaries are either under liquidation or have no business operations currently.

Key financial indicators (audited)

CFCL Standalone	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	12,239.7	12,732.2	8,018.1
PAT (Rs. crore)	1,224.3	1,347.0	768.1
OPBDIT/OI (%)	17.0%	19.5%	16.5%
PAT/OI (%)	10.0%	10.6%	9.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	0.9	0.9
Total Debt/OPBDIT (times)	4.6	1.6	1.3
Interest Coverage (times)	4.1	8.9	23.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019		
					31-Jan-2022	4-Jan-2021	06-Jul-2020	22-Nov-2019	20- Jun-2019	19-Nov-2018	13-Jun-2018	04-May-2018
1	Commercial Paper Programme	Short term	4,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
Unplaced	Commercial Paper Programme	NA	NA	NA	4,500.0	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis-NA

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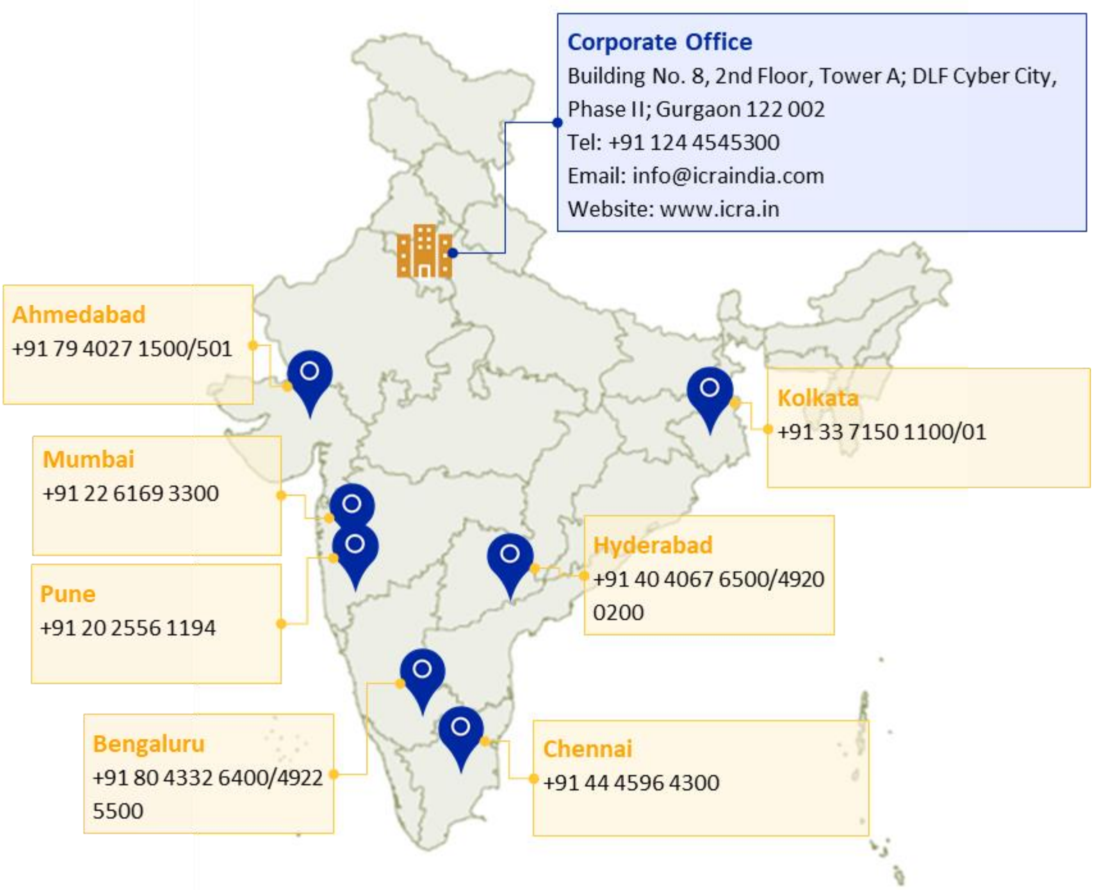

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