January 30, 2024

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-I*

Rationale

The rating reaffirmation factors in the established position of Chambal Fertilisers & Chemicals Limited (CFCL) as the third-largest urea manufacturer in the domestic market and a stable demand outlook for fertilisers, along with the company's energy-efficient urea operations. 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 the New Urea Investment Policy-2012 (NIP-2012). There was a run-up in feedstock prices for urea earlier. However, the higher input cost is a pass-through in the form of Government subsidy, the release of which has been largely timely. Moreover, for the energy-efficient plants, elevated gas prices add to the energy savings. While gas costs have come down, the profitability remains healthy because of the efficiency of the plants.

Urea operations continue to be steady even as CFCL's profitability from the trading operation is expected to contract in the current fiscal because of the weak contribution from the sale of traded products. The company is also expanding its non-subsidised farm solution products, which are likely to add to the cash flow generation. During the current fiscal, the subsidy payouts have been timely, which coupled with limited losses in the traded NPK segment, resulted in a healthy liquidity build-up for the company.

The rating also factors in the improvement in the credit profile of the company, driven by the timely release of subsidy. The interest coverage improved to 12.4x in H1 FY2024 vis-à-vis 5.9x in FY2023. Though the coverage metrics are likely to moderate, going forward, they will continue to be healthy.

The rating also factors in the vulnerability of CFCL's performance to agro-climatic conditions and regulatory risks. The credit profile remains vulnerable to fertiliser subsidy budgeting by the GoI. ICRA takes note of the Rs. 1,645-crore capex being undertaken by CFCL to set up a 2,40,000-MTPA technical ammonium nitrate (TAN) capacity and a 1,80,000-MTPA weak nitric acid capacity at its Kota facility. Given the healthy liquidity position (cash and equivalents of more than Rs. 4,000 crore as of Sep 2023), the capex is likely to be funded through internal accruals, even as the company has announced a Rs. 700-crore buy-back scheme.

ICRA also notes that the company has exceptional financial flexibility. However, as on December 31, 2023, the promoters held a 60.56% equity stake in the company, of which 15.29% shares were pledged, which could weigh on the company's financial flexibility.

Key rating drivers and their description

Credit strengths

Established position in domestic fertiliser industry - CFCL is the largest private sector urea manufacturer with a 3.00-MMTPA installed capacity and the third-largest urea player in the country. CFCL has cemented its position as one of the leading players in the fertiliser sector with total fertiliser volume sales of ~2.40 MMT (including urea and non-urea fertilisers in 6M FY2024). A strong marketing network comprising 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 – After the implementation of the Nutrient Based Subsidy (NBS) scheme 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 its lower price.

Healthy energy efficiency and capacity utilisation of urea units; stable cash generation from urea - CFCL's urea plants continue to be one of the most energy-efficient urea plants in the country and are competitive against imported urea as well. The plants have 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. The cash generation from urea operations has increased significantly from FY2020 onwards with the commissioning of the brownfield expansion in January 2019. Further, there is strong policy support from the 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 the urea operations is expected to remain stable, going forward, backed by strong operational performance and policy support.

Healthy financial flexibility on account of large bank limits and standing among investors - CFCL has 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.

Credit challenges

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

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

Environmental and social risks

Global efforts towards decarbonisation and focus on the impact of fertiliser use on soil health may lead to the development of new types of fertilisers and lower the demand for conventional fertilisers. However, in India, ICRA does not expect any material impact on conventional fertiliser offtake in the near to medium term, given the country's import dependence as well as the time taken by the end-consumers to accept new products.

Fertiliser manufacturing, particularly urea, has a significant carbon footprint as natural gas is the key raw material for the synthesis of hydrogen which goes into the production of ammonia and thereafter urea. With the GoI exploring the passing of a mandate for the procurement of green hydrogen by refineries and fertiliser plants, it will lead to additional cost burden on urea manufacturers.

ICRA expects the GoI to provide adequate policy support to the sector if it decides to mandate the sector to meet a part of its hydrogen requirement through the green route. Rising awareness about the use of chemical fertilisers in farming and the growing clamour for organic produce can impact fertiliser offtake. Though, the productivity in organic farming remains low at present and thus the near-term risk to fertiliser offtake is low. Going forward, technological breakthroughs resulting in organic alternatives with equal or better productivity can pose a significant threat to fertiliser offtake, although the threat remains long term in nature.

Liquidity position: Strong

CFCL's liquidity position is expected to remain strong in the near to medium term with adequate cash generation from business. Moreover, the working capital utilisation remains low, which along with cash balances of Rs. 1,865 crore as on March 31, 2023 and more than Rs. 4,000 crore as of September 2023, provide a strong liquidity cushion. CFCL's ability to access the capital markets at a short notice and at highly competitive rates supports its liquidity position as well.

Rating sensitivities

Positive factors – NA

Negative factors – The rating can be downgraded in case of lower-than-expected capacity utilisation of the urea operations, resulting in lower cash accruals which will weaken CFCL's debt servicing capability. The rating would also face downward pressure if the working capital cycle is stretched owing to delays in subsidy receivables by the GoI.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Fertilizers
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating for CFCL is based on the 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 ~3.00 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 the trading of agri-inputs such as complex fertilisers (DAP, MOP, SSP), pesticides, seeds, etc. The company also commissioned an SSP plant at Gadepan in FY2013 with a capacity of 0.2 MMTPA.

CFCL also has a 33.33% stake in Indo Maroc Phosphore SA (IMACID), Morocco, a major producer of phosphoric acid, apart from subsidiaries in the software and power businesses. CFCL exited its shipping business in H1 FY2018.

Key financial indicators (audited)

CFCL Standalone	FY2022	FY2023
Operating income	16,092.4	27,822.6
PAT	1,287.1	1,069.3
OPBDIT/OI	14.2%	6.8%
PAT/OI	8.0%	3.8%
Total outside liabilities/Tangible net worth (times)	1.1	0.8
Total debt/OPBDIT (times)	1.9	1.7
Interest coverage (times)	21.6	5.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 30, 2024	Jan 31, 2023	Jan 31, 2022	Jan 04, 2021
1	**Commercial paper programme**	Short term	4,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	Very 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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Unplaced	**Commercial paper programme***	NA	NA	NA	4500.0	[ICRA]A1+

Source: Company

** - Unplaced*

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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