Paradeep Phosphates Limited

Instrument	Amount In Rs. Crore^	Rating Action
Fund-based, Long-term facilities	1,000	[ICRA]BBB+ (Stable) reaffirmed
Non-fund Based, Short-term facilities	2,500	[ICRA]A2+ reaffirmed

The rating of [ICRA]BBB+ (pronounced ICRA triple B plus) has been reaffirmed for the Rs. 1,000 crore long-term fund-based facilities of Paradeep Phosphates Limited (PPL); the outlook on the long-term rating is Stable. The rating of [ICRA]A2+ (pronounced ICRA A two plus) has also been reaffirmed for the Rs. 2,500 crore short-term non-fund based facilities of PPL.[†]

The reaffirmation of ratings reflects the moderate financial performance of the company during FY2016. While margins have improved to some extent, high interest costs on account of high debt levels have kept net margins and returns at modest levels. Due to moderation in profitability and high debt levels, debt coverage indicators have also moderated in recent years. Nevertheless, the reaffirmation of ratings factors in the company's established position as one of the largest manufacturers of phosphatic and complex fertilisers in India and its leading market position in its marketing territories. The ratings also factor in the substantial gap between domestic production and consumption leading to limited demand-related risks and the company's moderate cost position due to high operating efficiency and part backward integration into the manufacture of phosphoric acid. The company's established relations with overseas raw materials' suppliers due to the latter belonging to the promoter group generally results in smooth availability of raw materials. The ratings also consider the high financial flexibility arising from its association with the Adventz Group (part of the erstwhile K.K. Birla Group) and sizeable liquid assets (in the form of fertiliser bonds). Besides, ICRA notes that PPL derives benefits from the group's presence in P&K business through three companies viz Zuari Agro and MCF besides itself, in the areas of raw material procurement, plant operations and marketing.

The ratings are constrained by the vulnerability of the company's profitability to agro-climatic and regulatory risks, with the former being reflected by muted demand in recent years and the latter being reflected by substantial delays in subsidy receipts from the GoI in recent years leading to high short-term borrowings and recent price intervention in pricing of DAP/NPK fertilisers by GoI. The ratings also continue to factor in the company's relatively high segmental concentration towards phosphatic/complex fertilisers, significant exposure to forex fluctuation risks being a major importer and high working capital intensity of its fertiliser business. The performance of P&K fertiliser manufacturers (such as PPL) is relatively more vulnerable to regulatory (subsidy levels) as well as economic variables (such as supply-demand, commodity prices and currency movements). Further, substantial price increase in the prices of P&K fertilisers post the implementation of NBS have adversely impacted demand due to significant price differential with urea. The recent cut in NPK subsidy rates for FY2017 and price intervention by the government in NPK fertilisers on account of decline in raw material prices is expected to keep the margins muted for the NPK manufacturers in the near term, though the cut in NPK subsidy rates is expected to result in decline of working capital borrowings for funding subsidy backlog. The company also has contingent liabilities of ~Rs. 467 crore as of end-FY2016 (against ~Rs. 366 crore as of end-FY2015).

Increased imports of DAP/NPK fertilisers in FY2016 led to increase in systemic inventories to five year high levels. The price intervention by the government, reduction in subsidy rates resulting in inventory valuation losses and high systemic inventory leading to lower sales resulted in net loss in Q1 FY2017 for the company. ICRA however expects the company's performance to improve in the subsequent quarters due to good monsoons in its marketing territories and fall in the raw material prices, which should offset the losses made in Q1.

The company completed commissioning of its sulphuric acid plant in FY2016 which has increased its capacity of production of sulphuric acid to 1.32 MMTPA. The project was delayed beyond scheduled completion due to cyclones impacting execution of the project and sometimes due to lack of skilled manpower in the area, although there has been no cost overrun for the project. The project was expected to be complete by October

^ 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

2015 but it could be completed towards the end of FY2016. Nevertheless the plant is expected to aid profitability due to increased in-house availability of power and increased efficiency. The positive impact of the project is expected to be visible from FY2017 onwards. The company is also building a new Rs. 208 crore gypsum pond at its current premises, as the existing gypsum pond capacity has been exhausted. The company is also looking at increasing it's DAP/NPK capacity to 1.5 MMTPA by the end of FY2018 by debottlenecking its existing plant with a total capital outlay of ~Rs 150 crore. This will result in cash outflows over next two years as the projects are expected to be completed by the end of FY2018. The liquidity position of the company is expected to remain moderate due to expectation of subdued financial performance in the near term, cash outflows for the capex being undertaken and repayment of term loans. The ability of the company to improve the profitability and cash flow position, any material cost and/or time overruns for the capex underway and devolvement of any significant contingent liabilities will be the key rating sensitivities going forward. Any significant debt-funded capex / investments in the medium term in this respect leading to moderation of capital structure and debt coverage metrics will be the other rating sensitivity.

Company Profile

Paradeep Phosphates Limited (PPL) was incorporated in 1981 as a joint venture between the Government of India (GoI) and the Republic of Nauru to set up facilities for the manufacture of di-ammonium phosphate (DAP) at Paradeep, Orissa. In 1993, the Republic of Nauru disinvested its equity stake to the GoI and PPL became a public sector enterprise wholly owned by the GoI. In February 2002, GoI disinvested 74% of PPL's equity in favour of Zuari Maroc Phosphates Private Limited (ZMPPL), a 50:50 joint venture between Zuari Industries Limited (ZIL, a K.K. Birla Group company) and Maroc Phosphores, Morocco (part of OCP Group, Morocco). ZIL was demerged into Zuari Agro Chemicals Limited (ZACL, earlier Zuari Holdings Limited, rated [ICRA]BBB+(Stable) / [ICRA]A2+) and Zuari Global Limited w.e.f. July 1, 2012. Currently, ZMPPL holds 80.45% stake in PPL, while the remaining 19.55% is held by the GoI. As on September 30, 2002, the company's net worth had turned negative due to continuing losses and it was referred to BIFR in February 2003. BIFR, after several rounds of hearings involving various stakeholders, approved a final restructuring scheme in October 2008. The company formally exited BIFR in August 2011.

PPL is currently among the top few integrated DAP plants in India with an installed annual capacity of 0.72 million metric tonnes per annum (MMTPA) of DAP / NPK complex fertilisers (effective capacity of 1.3 MMTPA), 0.35 MMTPA of phosphoric acid and 1.32 MMTPA of sulphuric acid. Actual production of DAP / NPK fertilisers has remained higher than the installed capacity over the past few years due to initiation of several operational improvement and debottlenecking projects by the management. The company has also scaled up trading operations of various P&K fertilisers, pesticides and agro-chemicals, etc. in recent years. The company is almost fully reliant on imported raw materials (rock phosphate, phosphoric acid, ammonia, sulphur, potash, etc.) for its operations and has a dedicated jetty at the Paradeep Port for these imports. The company completed its sulphuric acid plant commissioning in FY2016 at a total cost of Rs 584 crore. The company is currently undertaking capex of Rs 208 crore for constructing a gypsum pond and ~Rs 150 crore capex for debottlenecking of the DAP/NPK plant to increase its capacity to 1.5MMTPA by the end of FY2018.
In FY2016, the company reported a net profit of Rs. 77 crore on an operating income of Rs. 4,784 crore against net profit of Rs. 43 crore on an operating income of Rs. 4,172 crore in FY2015.

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