December 11, 2017

Paradeep Phosphate Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loan	200 (nil earlier)	[ICRA]BBB+(Positive)outstanding#
Fund-based – long term facilities	1,000	[ICRA]BBB+(Positive) outstanding
Non-fund based short term facilities	2,300	[ICRA]A2+ outstanding
Non-fund based, Un-allocated	Nil (reduced from Rs. 200 crore)	-
Total	**3,500**	

Summary of rated instruments
**Instrument details are provided in Annexure-1*
 # The amount against term loans was earlier rated as part of short term un-allocated limits which have been reduced to nil now.

Rating action
ICRA has ratings outstanding of [ICRA]BBB+ (pronounced ICRA triple B plus) for Rs 1000 crore long term fund based limits and Rs 200 crore (increased from nil earlier) term loan (The amount under term loan was earlier rated as part of short term un-allocated limits which have been reduced to nil now) and [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 2300 crore short term non-fund based facilities of Paradeep Phosphate Limited (PPL). The outlook on the long term rating is Positive.

Rationale
The ratings of PPL take into account the improved financial performance of PPL in FY2017 and YTD FY2018 owing to significant decline in international prices of key raw material i.e. phosphoric acid and ammonia. International prices of key raw materials for manufacturing DAP/NPK i.e. phosphoric acid and ammonia have witnessed significant decline in last one year which had helped the company tide over significant losses incurred on account of price intervention by GoI in H1 FY2017. The positive outlook on the rating reflects expectation of improvement in profitability of PPL in the near term owing to subdued raw material prices and company's established position as a leading manufacturer of DAP/NPK fertiliser.

The ratings continue to factor 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). Besides, ICRA notes that PPL derives benefits from the group's presence in P&K business through three companies viz Zuari Agro Chemicals Limited (ZACL, rated [ICRA]BBB+(Stable) and [ICRA]A2+) and Mangalore Chemicals & Fertilisers Limited (MCFL) 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. 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.

In FY2017, PPL's net profits witnessed improvement over FY2016 owing to improved operating profitability partially offset by higher interest charges. Net profit for the company rose to Rs. 87 crore in FY2017 from Rs. 77 crore in FY2016. As a result of improvement in operating and net profitability, credit metrics have improved in FY2017. However, due to subsidy driven working capital borrowings the debt metrics continue to remain subdued. The gearing of the company moderated to 2.12 times at the end of FY2017 as against 2.58 times in FY2016 while Total Debt/ OPBDITA moderated to 6.76 times in FY2017 from 9.78 times in FY2016. Interest coverage ratio for FY2017 was 1.57 times as against 1.52 times in FY2016 as interest charges increased significantly during FY2017. According to provisional and un-audited results for 7M FY2018, PPL's net profit has risen to Rs. 147 crore in 7M FY2018 as against a loss of Rs. 67 crore in 7M FY2017.

Key rating drivers

Credit strengths

- **Established position as one of the largest manufacturers of DAP and complex fertilisers in India:** PPL is one of the largest manufacturers of DAP/NPK fertilisers in India with a total installed capacity of 1.2MMTPA. The plant can switch between production of DAP and NPKs as per demand and contribution levels. With further capacity expansion planned by the company in coming years the capacity will rise further to around 1.5 MMTPA.
- **Leading market position in DAP and NPK complexes in most of its marketing territories:** PPL enjoys leading market share in most of its territories like Orissa, West Bengal, Bihar and Uttar Pradesh. PPL also benefits from being part of Adventz Group wherein the marketing function is now unified for Zuari Agro Chemicals Limited (ZACL), Zuari Fertilisers & Chemicals Limited (ZFCL) and Mangalore Chemicals & Fertilisers Limited (MCFL) leading to synergies in terms of product placement and market reach. PPL has a dealer network of 2540 dealers and around 25000-3000 retailers.
- **Favourable domestic demand outlook for phosphatic fertilisers due to deficient soil and substantial gap between domestic production and consumption:** The ideal N:P:K nutrient balance for Indian soil is 4:2:1 while the actual ratio was 6.8:2.7:1 at the end of FY2017. The nutrient imbalance is a result of overuse of urea and low use of NPK which makes the soil acidic. With schemes like soil health cards being implemented by GoI to determine the soil health and advice to farmers on the right fertilisers to use the demand outlook for P&K fertilisers remains positive.
- **Efficient cost structure with part backward integration into manufacturing of phosphoric acid:** PPL is backward integrated into production of phosphoric acid by using rock phosphate and sulphuric acid which provides a key cost advantage to PPL as phos acid produced is cheaper than imported phosphoric acid. PPL also completed commissioning of its sulphuric acid plant in FY2016 which has lowered the cost of power and sulphuric acid for the company.

- **Favourable relation with overseas suppliers results in easy availability of raw materials:** One of the promoters of PPL is Office Cherifien des Phosphates (OCP), Morocco which is one of the largest producers of phosphoric acid globally. PPL procures part of its phosphoric acid requirement from OCP. Since OCP is one of its promoters, PPL does not face any challenges in procurement of key raw material.
- **Financial flexibility arising from association with the Adventz Group (erstwhile K.K. Birla Group) of companies:** PPL is part of the Adventz Group as ZACL owns nearly 40% in the company. Being part of the Adventz group lends PPL the ability to refinance its loans as well as enjoy finer interest rates.

Credit weaknesses

- **Segmental concentration towards phosphatic / complex fertilisers as compared to some of the other leading fertiliser manufacturers in India:** PPL's entire product portfolio is concentrated to phosphatic and complex fertilisers while many other players have a relatively diverse product portfolio. As a result PPL is more vulnerable to the vagaries of volatility in the P&K fertiliser segment.
- **Vulnerability of profitability to agro-climatic conditions:** Agriculture sector in India remains vulnerable to the vagaries of monsoon as the area under irrigation remains low which exposes fertiliser sector demand to volatility as well. The sector being highly regulated also remains vulnerable to changes in the regulations by GoI.
- **Sharp rise in prices of P&K fertilisers post NBS have adversely impacted demand due to high price differential with urea:** Post implementation of Nutrient Based Subsidy (NBS) for P&K fertilisers, the price differential between urea and P&K fertilisers has widened which has adversely impacted demand for P&K fertilisers. The profitability of the company depends on the movement of international prices of raw material as majority of raw material is imported. The ability of the company to pass on any increase in raw material prices to end-consumer through revision of retail price also plays a crucial role in protecting profitability of the company.
- **Being a substantial importer, exposed to risk of currency fluctuations, although mitigated by firm hedging policy:** PPL imports its entire requirement of phosphoric acid, ammonia, rock phosphate and Muriate of Potash (MOP) for production of DAP/NPK fertiliser which exposes it to foreign exchange risks. The risk is however partly mitigated by the nearly complete hedging of the foreign exchange exposure the company undertakes.
- **Working capital requirements have remained high in recent years due to delay in subsidy receipts from the GoI:** As the subsidy receivables from GoI continue to remain outstanding for as long as 4-5 months working capital borrowings to fund the receivables keep the borrowing levels elevated. The high receivable days also lead to high working capital intensity for the business and high interest costs for the company impacting profitability.
- **Moderate financial risk profile characterised by moderate profitability and returns, moderate capital structure and working capital intensive nature of operations:** PPL's profitability has remained moderate in past few years post implementation of Nutrient based Subsidy (NBS) regime. While profitability had witnessed improvement in FY2017 over FY2016 owing to the decline in raw material prices, the return metrics continue to remain subdued. Profitability has also been impacted by high interest costs the company has to incur as a result of high subsidy receivable driven working capital borrowings. Weak profitability and high debt have resulted in subdued credit metrics for PPL.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for fertiliser industry

About the company:
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.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	4784	3667
PAT (Rs. crore)	77	87
OPBDIT/ OI (%)	6.1%	10.3%
RoCE (%)	8.4%	10.2%
Total Debt/ TNW (times)	2.58	2.12
Total Debt/ OPBDIT (times)	9.81	6.76
Interest coverage (times)	1.52	1.57
NWC/ OI (%)	53%	64%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
				Dec 2017	August 2017	Dec 2016	September 2016	August 2015	August 2014
1	Term Loan	Long Term	200	[ICRA] BBB+ (Positive)	-	-	-	-	-
2	Fund based facilities	Long term	1000	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)
3	Non-fund based	Short term	2300	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+
4	Non-fund based short term unallocated	Short term	0	-	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

SIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	December 2015	10.42%	December 2023	200	[ICRA]BBB+(Positive)
-	Fund based facilities	-	-	-	1000	[ICRA]BBB+(Positive)
-	Non-fund based	-	-	-	2300	[ICRA]A2+
-	Non-fund based short term unallocated	-	-	-	200	[ICRA]A2+

Source: The company

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