

December 21, 2021

Indian Farmers Fertiliser Cooperative Limited: Long term rating upgraded; Short term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	750.00	750.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Positive)
Long term fund based-CC limit	5,500.00	5,500.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Positive)
Short term non-fund based	6,710.00	6,710.00	[ICRA]A1+; reaffirmed
Short term-fund based	15,040.00	15,040.00	[ICRA]A1+; reaffirmed
Commercial Paper Programme	156.00	156.00	[ICRA]A1+; reaffirmed
Total	28,156.00	28,156.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade reflects the improvement in the credit profile of IFFCO amid timely inflow of the subsidy from the GoI in YTD FY2022. The overall working capital borrowings and associated interest costs have remained significantly lower than previous years reflecting a long-term structural change in the credit profile with receivable days in the range of 60 to 90 days during H1 FY2022. The ratings also reflect the significant support the fertiliser sector has received in the form of continued subsidy revisions for the P&K fertilisers by GoI amid rising raw material prices to keep the profitability of the industry at a reasonable level while meeting the fertiliser demand in the country. GoI is expected to allocate adequate amount of subsidy for the sector in FY2022 as is indicated by the supplementary grants sought by the Ministry of Chemicals & Fertilizers, which should keep the industry's credit profile healthy. The society is expected to witness negative impact on cash generation due to steep rise in raw material prices, which will lead to moderation in the profitability and thus coverage metrics in FY2022. However, the society will continue to benefit from the dividend it receives from its Joint Venture Oman-India Fertiliser Company (OMIFCO) and the same is expected to be significantly higher than the previous years amid elevated international urea prices. ICRA expects that the profitability of the society to improve going forward, which coupled with timely subsidy receipts is likely to keep the financial profile healthy.

The ratings continue to factor in the leadership position of the society in the Indian fertiliser industry reflected by the market share of 22% in urea segment and 23% in the Phosphatic (P&K) fertiliser segment in 8M FY2022 and the largest fertiliser manufacturing setup in the country in both urea and P&K fertiliser segment, highly efficient operations in both urea and P&K segment, large investment portfolio yielding large dividend and interest income supporting profitability besides which several investments made ensure raw material security, large marketing setup and high financial flexibility with ability to raise working capital borrowings at highly competitive rates. Over the years, the society has built a large investment portfolio with Oman-India Fertiliser Company (OMIFCO with 25% ownership), Jordan India Fertiliser Company (JIFCO with 27% ownership) and IFFCO-Tokio General Insurance Limited (51% ownership) being the major investments. The society receives healthy dividends from its investments particularly OMIFCO, where the dividends pay-outs are expected to increase going forward. The society also has a large portfolio of interest-bearing bonds which provide healthy interest income. Some of the investments e.g. JIFCO and ICS provide raw material security as the society has entered into long term offtake agreements with these entities to supply rock phosphate and phosphoric acid respectively. The ratings also factor in the large marketing network of the society with nearly 35,000 farmer cooperatives being part of IFFCO which provides pan-India access to farmers.

The ratings of the society are tempered by the vulnerability of the profitability to agro-climatic risks, regulatory policies governing the fertiliser sector and expected moderation in the cash generation of the society in FY2022 driven by the steep rise in the raw material prices. ICRA notes that the operating profit of the society will moderate in FY2022 driven by the steep rise in the raw material prices for the phosphatic fertiliser segment. However, with the support provided by the GoI in the form of successive subsidy hikes and retail prices increases undertaken for the complex fertilisers, the impact of the raw material price inflation is expected to moderate.

Key rating drivers and their description

Credit strengths

Largest player in the domestic fertiliser industry with 22% market share in urea and 23% in DAP/NPK segment: IFFCO is the largest domestic manufacturer of urea and P&K fertilisers with nearly 22% market share in urea (including imported urea) and 23% market share in the P&K fertiliser segment as per 8M FY2022 figures. The company has the largest urea manufacturing capacity in India with 4.24 MMT capacity spread over 3 locations i.e. Kalol (Gujarat), Phulpur and Aonla (Uttar Pradesh) and the largest P&K fertilizer manufacturing capacity in India with ~4.3 MMT capacity spread over two plants at Kandla (Gujarat) and Paradeep (Odisha).

Healthy operational efficiency across urea and DAP/NPK plants: The plants of the society have maintained high operational efficiency with healthy capacity utilisation levels for both urea and P&K fertilisers and energy efficient operations in the urea plants. All the urea plants have their energy consumption well below their pre-set norms under NUP-2015 which results in large energy savings and supports the operating profitability of the society. Highly energy efficient plants keep urea production against imports competitive aiding production beyond re-assessed capacity. Among the P&K plants, the Kandla plant remains dependent on imported phosphoric acid while Paradeep plant has a phosphoric acid manufacturing plant, which results in backward integration and higher operating margins for the society.

Large portfolio of investments in profitable ventures providing dividends and interest income: IFFCO has a sizeable portfolio of investments, which has been built-up over the years. The book value of investments was around Rs. 2,262.5 crore including strategic investments in various JVs/Subsidiaries and Rs. 1,667.6 crore of investments in bonds. The main investments include 25% ownership in Oman India Fertiliser Company (OMIFCO), 27% ownership in Jordan India Fertiliser company (JIFCO) and 51% ownership in IFFCO Tokio General Insurance Limited. The society derives significant income from these investments e.g. OMIFCO paid dividend of ~Rs. 232.0 crore in FY2021 and Rs. 97.0 crore in FY2020. The dividend from OMIFCO is expected to be substantially higher in FY2022 driven by elevated international prices of urea which will lead to significantly higher cash generation at OMIFCO. The market value of the investments is significantly higher than book value. These investments add significant financial flexibility to the society as these can be monetised if the need arises. The society also has a large portfolio of tax free and redeemable bonds from which it derives healthy interest income, thus aiding cash generation.

Well entrenched marketing network through cooperatives aiding farmer reach and marketing ability of the society: Nearly 35,300 cooperatives hold ownership in the society and the society markets its products through these cooperatives. The society also has a good brand recall amongst farmers as it carries out many farmer engagement activities and provides other value-added services through its subsidiaries like Kissan Sanchar etc. With a well-entrenched network, IFFCO has been able to garner a healthy market share across various states of India and continues to be leading fertiliser company in the country.

High financial flexibility characterised by ability to raise large short-term borrowings at competitive rates: The society has high financial flexibility with ability to raise funds from banking system at very short notice and at competitive rates. Low long-term liabilities vis-à-vis network and a large investment portfolio, large cash balances and stable dividend income from OMIFCO add to its financial flexibility.

Credit challenges

Vulnerability of profitability to regulatory policies of fertiliser sector and agro-climatic risks: The profitability of the sector remains vulnerable to the regulatory policies governing the sector with adequate subsidy allocation remaining one of the key factors impacting the sector's credit profile. Additionally, issues like lack of timely revision in the fixed costs for urea units and inverted duty structure for the phosphatic segments continue to moderate industry's performance. The performance of the sector also depends on the performance of monsoon as it directly impacts the performance of the agriculture sector, the end user of fertiliser.

Elevated input costs to exert pressure on profitability in near term- Key input prices i.e. ammonia and phosphoric acid prices have risen to multi-year high levels in YTD FY2022 driven by strong global demand amid limited supplies. While GoI has taken successive subsidy revisions in May 2021 and October 2021, the profitability for P&K segment is expected to remain lower than the historical levels. As a result, the cash generation will moderate in the current fiscal.

Liquidity position: Strong

IFFCO's liquidity is supported by nearly Rs. 3,557.0 crore of cash and liquid investments on the books of the society at the end of H1 FY2022 and average bank limit utilisation of 27% for last 12 months ending October 2021. Additionally, IFFCO also has nearly Rs. 1667.6 crore of investment in bond portfolio which provides support to cash generation through interest income. While the cash generation from operations will moderate in FY2022, it will remain adequate to meet the near-term debt repayments and capex program. Thus, the liquidity profile of the society is expected to remain strong.

Rating sensitivities

Positive factors – The regulated nature of the business limits further rating upgrade in the near to medium term unless the entity undertakes significant debt reduction and/or Substantial improvement in profitability metrics or monetisation of stake in JVs/subsidiaries and/or significant reduction in the receivable days of the society on a sustained basis leading to improvement in the credit profile of the society may lead to a rating upgrade.

Negative factors – Material cash outflow due to large acquisition/capex resulting in deterioration in the credit metrics and/or Material deterioration in the working capital cycle driven by delay in the subsidy receivables from GoI leading to subsidy receivables remaining above 120 days on a sustained basis.

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 are based on the standalone financials of the society.

About the company

Indian Farmers Fertiliser Cooperative Limited (IFFCO) was setup in November 1967 and is now one of the largest cooperative bodies and is completely owned by nearly 35,300 cooperative societies across India. The society is engaged in manufacturing, import and marketing of fertilisers primarily urea, DAP and complex fertilisers. The society also sells other products like water-soluble fertilisers, bentonite sulphur, bio-fertilisers, plant growth promoters etc. However, the contribution of these products to revenue and profitability remains small compared to urea and P&K fertilisers. The society has 5 manufacturing facilities for

urea at Kalol, Phulpur (two trains P-1 & P-2) and Aonla (two trains A-1 & A-2) with a cumulative capacity of 4.24MTPA which makes it the largest urea manufacturer in India with a capacity share of nearly 22%. The company is also engaged in manufacturing of DAP and complex fertilisers and has two plants at Kandla and Paradeep with cumulative capacity of 4.3 MTPA. The company had nearly 22% market share in urea segment including imported urea and 23% market share in the P&K fertiliser segment in 8M FY2022. The company derived nearly 34% of its revenues from manufactured urea, 52% from the manufactured phosphatic fertilisers and remaining 14% from trading of urea, phosphatic fertilisers and indigenous seeds and chemicals in FY2021.

Key financial indicators (audited)

IFFCO Standalone	FY2020	FY2021
Operating Income (Rs. crore)	29,412.4	27,836.9
PAT (Rs. crore)	1,004.6	1,753.9
OPBDIT/OI (%)	8.2%	10.4%
PAT/OI (%)	3.4%	6.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	0.9
Total Debt/OPBDIT (times)	6.2	2.7
Interest Coverage (times)	2.2	4.0

Note: ICRA estimates; 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 December 20, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
					December 21, 2021	September 22, 2021	Mar 12, 2021	Sep 11, 2020	Aug 10, 2020		
1	Term loans	Long term	750.00	618.75	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
2	Long term fund based-CC limit	Long term	5,500.00	-	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
3	Short term non fund based	Short term	6,710.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
4	Short term-fund based	Short term	15,040.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
5	Short Term-Unallocated	Short term	0.00	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
6	Commercial Paper Programme	Short term	156.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long term fund based-CC limit	Simple
Short term non fund based	Simple
Short term-fund based	Simple
Short Term-Unallocated	Simple
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/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
Indian Overseas Bank	Long Term fund Based-CC Limit	-	-	-	1350.00	[ICRA]AA+ (Stable)
State Bank of India	Long Term fund Based-CC Limit	-	-	-	1040.00	[ICRA]AA+ (Stable)
Bank of Baroda	Long Term fund Based-CC Limit	-	-	-	430.00	[ICRA]AA+ (Stable)
Industrial Development Bank of India	Long Term fund Based-CC Limit	-	-	-	307.00	[ICRA]AA+ (Stable)
ICICI Bank	Long Term fund Based-CC Limit	-	-	-	50.00	[ICRA]AA+ (Stable)
Standard Chartered Bank	Long Term fund Based-CC Limit	-	-	-	58.00	[ICRA]AA+ (Stable)
Hongkong and Shanghai Banking Corporation Limited	Long Term fund Based-CC Limit	-	-	-	30.00	[ICRA]AA+ (Stable)
Punjab State Cooperative Bank	Long Term fund Based-CC Limit	-	-	-	100.00	[ICRA]AA+ (Stable)
Maharashtra State Cooperative Bank	Long Term fund Based-CC Limit	-	-	-	525.00	[ICRA]AA+ (Stable)
Karnataka State Co-operative Bank	Long Term fund Based-CC Limit	-	-	-	150.00	[ICRA]AA+ (Stable)
Madhya Pradesh State Cooperative Bank	Long Term fund Based-CC Limit	-	-	-	122.00	[ICRA]AA+ (Stable)
The West Bengal State Co-operative Bank	Long Term fund Based-CC Limit	-	-	-	188.00	[ICRA]AA+ (Stable)
Uttar Pradesh State Cooperative Bank	Long Term fund Based-CC Limit	-	-	-	500.00	[ICRA]AA+ (Stable)
Punjab National Bank	Long Term fund Based-CC Limit	-	-	-	200.00	[ICRA]AA+ (Stable)
HDFC Bank Limited	Long Term fund Based-CC Limit	-	-	-	300.00	[ICRA]AA+ (Stable)
IndusInd Bank Limited	Long Term fund Based-CC Limit	-	-	-	50.00	[ICRA]AA+ (Stable)
DBS Bank India Limited	Long Term fund Based-CC Limit	-	-	-	100.00	[ICRA]AA+ (Stable)
State Bank of India	Short Term-Fund Based	-	-	-	2850.00	[ICRA]A1+
Punjab National Bank	Short Term-Fund Based	-	-	-	3000.00	[ICRA]A1+
BNP Paribas S. A.	Short Term-Fund Based	-	-	-	255.00	[ICRA]A1+
Axis Bank Limited	Short Term-Fund Based	-	-	-	1950.00	[ICRA]A1+
HDFC Bank Limited	Short Term-Fund Based	-	-	-	2010.00	[ICRA]A1+
MUFG Bank Limited	Short Term-Fund Based	-	-	-	800.00	[ICRA]A1+
Union Bank of India Limited	Short Term-Fund Based	-	-	-	845.00	[ICRA]A1+

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
Kotak Mahindra Bank Limited	Short Term-Fund Based	-	-	-	600.00	[ICRA]A1+
RBL Bank Limited	Short Term-Fund Based	-	-	-	200.00	[ICRA]A1+
Karnataka Bank Limited	Short Term-Fund Based	-	-	-	200.00	[ICRA]A1+
DBS Bank India limited	Short Term-Fund Based	-	-	-	190.00	[ICRA]A1+
Bank of Maharashtra	Short Term-Fund Based	-	-	-	400.00	[ICRA]A1+
United Overseas Bank Limited	Short Term-Fund Based	-	-	-	100.00	[ICRA]A1+
CTBC	Short Term-Fund Based	-	-	-	40.00	[ICRA]A1+
ICICI Bank	Short Term-Fund Based	-	-	-	1000.00	[ICRA]A1+
Sumitomo Mitsubishi Banking Corporation	Short Term-Fund Based	-	-	-	200.00	[ICRA]A1+
Mizuho Bank Limited	Short Term-Fund Based	-	-	-	400.00	[ICRA]A1+
Indian Overseas Bank	Short Term-Non fund Based	-	-	-	350.00	[ICRA]A1+
State Bank of India	Short Term-Non fund Based	-	-	-	750.00	[ICRA]A1+
Bank of Baroda	Short Term-Non fund Based	-	-	-	235.00	[ICRA]A1+
Industrial Development Bank of India	Short Term-Non fund Based	-	-	-	404.00	[ICRA]A1+
ICICI Bank	Short Term-Non fund Based	-	-	-	125.00	[ICRA]A1+
Standard Chartered Bank	Short Term-Non fund Based	-	-	-	200.00	[ICRA]A1+
Hongkong and Shanghai Banking Corporation Limited	Short Term-Non fund Based	-	-	-	400.00	[ICRA]A1+
Punjab State Cooperative Bank	Short Term-Non fund Based	-	-	-	30.00	[ICRA]A1+
Maharashtra State Cooperative Bank	Short Term-Non fund Based	-	-	-	75.00	[ICRA]A1+
Karnataka State Co-operative Bank	Short Term-Non fund Based	-	-	-	25.50	[ICRA]A1+
Madhya Pradesh State Cooperative Bank	Short Term-Non fund Based	-	-	-	25.50	[ICRA]A1+
The West Bengal State Co-operative Bank	Short Term-Non fund Based	-	-	-	30.00	[ICRA]A1+
Punjab National Bank	Short Term-Non fund Based	-	-	-	100.00	[ICRA]A1+
HDFC Bank Limited	Short Term-Non fund Based	-	-	-	100.00	[ICRA]A1+
DBS Bank India Limited	Short Term-Non fund Based	-	-	-	200.00	[ICRA]A1+
IndusInd Bank Limited	Short Term-Non fund Based	-	-	-	400.00	[ICRA]A1+

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
ICICI Bank	Short Term-Non fund Based	-	-	-	325.00	[ICRA]A1+
Yes Bank Limited	Short Term-Non fund Based	-	-	-	445.00	[ICRA]A1+
Union Bank of India Limited	Short Term-Non fund Based	-	-	-	300.00	[ICRA]A1+
IndusInd Bank Limited	Short Term-Non fund Based	-	-	-	790.00	[ICRA]A1+
Kotak Mahindra Bank Limited	Short Term-Non fund Based	-	-	-	400.00	[ICRA]A1+
State Bank of India	Short Term-Non fund Based	-	-	-	1000.00	[ICRA]A1+
HDFC Bank Limited	Term Loan	Mar-20	-	Mar-25	600.00	[ICRA]AA+ (Stable)
HDFC Bank Limited	Term loan	Mar-17	-	Mar-22	150.00	[ICRA]AA+ (Stable)
Unplaced	Commercial Paper	-	-	-	156.00	[ICRA]A1+

Source: IFFCO

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

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