

August 30, 2022

KRIBHCO Fertilizers Limited: Ratings reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	600.00	100.00	[ICRA]A1+ reaffirmed
Total	600.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

For assigning of the ratings, ICRA has taken a consolidated view of Krishak Bharati Cooperative Society (KRIBHCO) and its subsidiary KRIBHCO Fertilizers Limited (KFL – rated [ICRA]A1+). The ratings factor in the Society's established track record of nearly three decades, being the fourth-largest urea manufacturer and third-largest marketer with a ~12% market share (including KFL's share). The ratings also factor in the adequate contribution from the P&K fertiliser trading operations and the consistent and healthy dividend inflow from its joint venture - Oman India Fertilizer Company S.A.O.C. (OMIFCO) - which is likely to remain healthy, going forward.

The Society derives benefit from the ownership of cooperatives which are engaged in the distribution of fertilisers, leading to an established pan-India market presence and reach to farmers. Despite the diversified ownership, the Society is professionally managed and has strong financial flexibility on account of the large net worth and strength of its investments. The financial flexibility is evident from the ability to raise funds at competitive rates for the Society and its subsidiaries. The Society benefits from access to urea from the Shahjahanpur plant of its subsidiary KFL, leading to a higher market share.

ICRA takes comfort from the fact that KRIBHCO is also marketing the urea manufactured by KFL. KFL's performance has also improved significantly, driven by better energy savings and expected reduction in freight costs post the setting up of the railway siding connecting the plant to the nearest rake point of the Indian Railways.

The ratings also factor in the consistent support extended by the Government of India to the industry in terms of continued subsidy revisions and timely inflow of subsidy.

The Society's profitability, however, remains vulnerable to regulatory policies and agro-climatic conditions, while the cash flows are sensitive to the delays in subsidy receipts from the GoI, although the same has been timely since the last fiscal. The urea segment is reporting losses primarily due to under recovery of fixed costs, higher energy consumption than the stipulated norms in FY2022.

The contribution from the sale of P&K fertilisers in FY2022 had remained healthy, driven by the timely procurement of the fertilisers and timely revision in subsidy. As a result, the segment's PBIT grew to Rs. 571 crore in FY2022 from Rs. 364 crore in FY2021, which offset the impact of the decline in the profitability of the urea segment. However, the profitability of the phosphatic segment is expected to remain subdued because of the sharp increase in the international prices of P&K fertilisers along with the weakening of the rupee vis-à-vis USD, even as the subsidy has also been revised. However, the timing of the purchase and subsidy revision remain the key determinants of the profitability in this segment.

The Society is also considering various diversification plans, including setting up New Bio-ethanol plants for ethanol blending for petrol (EBP) under a separate SPV. The expected capex, if approved, may be Rs. 250 crore for each plant.

Key rating drivers and their description

Credit strengths

Established position as manufacturer and marketer of urea; ownership by cooperatives aids marketing reach – KRIBHCO, along with its subsidiary KFL, is the fourth-largest urea manufacturer and third-largest urea marketer (including KFL and imported urea) in the country. The Society is owned by cooperatives, which are also engaged in the marketing of fertilisers. As a result, it derives significant synergy from its ownership, which improves its marketing reach to farmers.

Healthy capacity utilisation of urea plant; however, energy savings have moderated - The Society's urea plants have been operating at healthy capacity utilisation levels. The capacity utilisation levels have remained more than 100% (on the basis of the debottlenecked capacity of 2.12 MMTPA) over the last several years, resulting in healthy urea production. The energy consumption of the Hazira plant was around 5.521 Gcal/MT in FY2022, which was slightly higher than the normative energy norm, due to planned maintenance shutdown taken during the last fiscal.

Strong dividend inflow from OMIFCO supports cash generation - KRIBHCO has a 25% ownership in OMIFCO and the latter has been paying healthy dividends to the Society over the past few years, aiding profitability. The dividend receipt from OMIFCO increased significantly in FY2022 as OMIFCO started selling urea at market prices post the expiry of the supply agreement with the GoI in July 2020. In FY2023, the dividend from OMIFCO is expected to be continue to be healthy given the elevated international urea prices, which will offset the negative impact on the operating profitability due to lower contribution from the manufacturing operations.

Strong financial flexibility - The Society displays strong financial flexibility owing to the availability of large unutilised bank limits and its ability to raise funds at highly competitive rates.

Credit challenges

Profitability of fertiliser sector vulnerable to regulatory policies and agro-climatic conditions: The profitability of the fertiliser sector remains vulnerable to the regulatory policies set by the GoI, such as revision in energy norms for urea units and infrequent revision in fixed costs for the units. Agro-climatic risks like a weak monsoon may also impact the profitability of the fertiliser sector as the industry has to offer higher discounts given the stressed condition of the end users.

Moderation in operating profitability with lower energy savings and lower fixed cost reimbursement by GoI - In FY2023, the profitability of the urea and the trading segments is expected to moderate, driven by muted energy savings and lower contribution from the trading of phosphatic fertilisers because of the elevated international prices. However, this will be partially offset by the increased dividend from OMIFCO.

Moderate financial risk profile of subsidiary KRIBHCO Fertilizers Limited (KFL) – KFL has moderate debt coverage metrics even as its operational performance is on an improving trajectory. Its financial risk profile is expected to improve, going forward, driven by higher energy savings and lower freight costs.

Liquidity position: Adequate

KRIBHCO's liquidity position is expected to remain adequate, going forward, supported by cash balances of Rs. 1,348 crore at the end of FY2022 and expectations of steady cash accruals, driven by a steep rise in dividends from OMIFCO.

Rating sensitivities

Positive factors – The ratings will be upgraded if there is a material increase in cash generation from operations, going forward, on a sustained basis.

Negative factors – Materially lower cash generation from trading operations and/or lower dividends from OMIFCO resulting in lower cash accruals on a sustained basis could lead to a rating downgrade. The weakening of the credit profile due to higher-

than-expected debt-funded capex going forward and/or increase in the receivable days beyond 150 days for a sustained period will put downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of KRIBHCO group (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them

About the company

KRIBHCO Fertilizers Limited (KFL)

KRIBHCO Fertilizers Limited (KFL) was incorporated on December 8, 2005 pursuant to a joint venture agreement between KRIBHCO and Shyam Group to acquire the urea manufacturing facilities of Oswal Chemicals & Fertilizers Limited located at Shahjahanpur (Uttar Pradesh) in the shareholding ratio of 60:40. The control of the plant was taken over with effect from January 18, 2006. The cost of acquisition, on a slump sale basis, was Rs. 1,908 crore, which was funded by debt of Rs. 1,208 crore and equity of Rs. 700 crore. KRIBHCO has guaranteed the total debt availed by the JV for the acquisition. Initially, KRIBHCO invested Rs. 420 crore for acquiring a 60% stake in the JV, while the balance 40% was held by STL Fertilizers Private Limited (STLFL), an SPV of the Shyam Group. STLFL had an irrevocable 'put option' on KRIBHCO to exit from KSFL any time up to March 31, 2009; it exercised the option for the sale of 25% stake to KRIBHCO, which was accepted by the latter as per the terms and conditions of the JV agreement. KRIBHCO paid Rs. 215 crore for the 25% stake. Later, during FY2016 and FY2017, KRIBHCO further paid Rs. 194 crore to STLFL to acquire balance 15% stakes and consequently, KRIBHCO now holds 100% stakes in KSFL with an investment of Rs. 914 crore. The facility at Shahjahanpur is an integrated facility with a manufacturing capacity of 864,600 metric tonnes per annum (MTPA) of urea and 501,600 MTPA of ammonia.

Krishak Bharati Cooperative Limited (KRIBHCO)

Krishak Bharati Cooperative Limited (KRIBHCO) is a cooperative incorporated under the Multi State Cooperative Societies Act. It was set up in 1980 by the Government of India. It is owned by various co-operative societies across India. The Society manufactures urea, bio-fertilisers and seeds. KRIBHCO has a urea manufacturing plant at Hazira with a capacity of 1.73 MMTPA and a capacity of 2.12 MMTPA, post revamp. Besides urea, the cooperative also manufactures and trades in fertilisers, seeds and other agri-inputs (such as bio-fertilisers) and chemicals (such as surplus ammonia). KRIBHCO has ownership interests in various ventures - KFL (100% ownership) involved in urea production, KRIL (24% ownership) involved in multi-modal logistic business, OMIFCO (25% ownership in a JV involving IFFCO and OQ Ltd.) manufacturing urea, and GSEG (19.16% ownership) operating a 156-MW gas-based power plant in Surat, Gujarat.

Key financial indicators

KFL Standalone	FY2021	FY2022
Operating Income (Rs. crore)	2,161.4	3,198.7
PAT (Rs. crore)	6.8	80.2
OPBDIT/OI (%)	8.2%	6.8%
PAT/OI (%)	0.3%	2.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.8	3.7
Total Debt/OPBDIT (times)	5.5	6.2
Interest Coverage (times)	1.8	3.7

KRIBHCO Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	11,651.1	15,180.1
PAT (Rs. crore)	375.2	1,254.6
OPBDIT/OI (%)	6.2%	4.7%
PAT/OI (%)	3.2%	8.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.7
Total Debt/OPBDIT (times)	3.6	5.8
Interest Coverage (times)	2.5	5.1

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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of August 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					30 Aug 2022	24 Aug 2021	14 Sep 2020	5 Aug 2019
1	Commercial Paper	Short Term	100.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture	Long term	-	-	-	-	[ICRA]AA (CE) (Stable); reaffirmed and withdrawn	[ICRA]AA (SO) (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	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
Unplaced	Commercial paper	-	-	-	100.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Kribhco Ownership	Consolidation Approach
Krishak Bharati Cooperative Limited	100.00% (rated entity)	Full Consolidation
KRIBHCO Fertilizers Limited	100.00%	Full Consolidation

Source: Company

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