

March 27, 2023

Rashtriya Chemicals and Fertilizers Limited: Change in limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loan	4,500	4,000	[ICRA]AA (Stable); outstanding
Long term – Fund-based/Cash credit	600	1,100	[ICRA]AA (Stable); outstanding
Long term – Non-convertible debentures	1,000	1,000	[ICRA]AA (Stable); outstanding
Short term – Commercial paper programme	3,000	3,000	[ICRA]A1+; outstanding
Total	9,100	9,100	

*Instrument details are provided in Annexure-I

Rationale

The ratings consider the established position of Rashtriya Chemicals and Fertilizers Limited (RCF or the company) as one of the largest urea manufacturers in India with vertically integrated operations in fertilisers and chemicals, coupled with the healthy operating efficiency of the company's urea operations, reflected in the high plant utilisation levels. The ratings continue to factor in the high financial flexibility of the company by virtue of the large sovereign ownership and its ability to access the debt markets at competitive rates to support its liquidity profile.

ICRA takes note of the improvement in the company's financial profile in FY2022 and 9M FY2023, aided by a healthy increase in profit contribution from the industrial chemical segment. Moreover, periodic increases in subsidy and timely payments of the subsidy supported the fertiliser segment, despite the sharp increase in natural gas and other raw material prices.

Post the tightening of the pre-set energy norms for the Trombay unit from October 2020, the profitability of the urea business has been impacted to an extent. However, the impact is expected to be offset to an extent by the increase in energy efficiency from several energy saving projects that the company is undertaking, although some of the projects have witnessed delays.

The ratings, however, are constrained by the vulnerability of the fertiliser business to regulatory and agro-climatic risks. The profitability of the chemical division is vulnerable to commodity price cycles, exchange fluctuations, potential reduction of import duty and the high working capital intensity of the fertiliser operations. While the subsidy payments in recent years have been timely and have witnessed periodic hikes, inadequate increase in subsidies or delays in payments will have an adverse impact on the company's financial profile.

The company has large capex plans in the medium term for modernisation, backward integration as well as product diversification, which will be partly debt funded, exposing the company to project execution risks and may put some pressure on the credit metrics. Further, RCF is also one of the joint venture (JV) partners with a 31.85% stake in the revival project of the Talcher unit of Fertiliser Corporation of India (FCI), with the other stakeholders being Coal India and GAIL apart from FCI. ICRA further notes that the Government of India (GoI) is looking to divest a 10% equity in RCF through an offer for sale (OFS). Any reduction in the GoI's stake below 51% would be negative for the rating and remains a key rating sensitivity.

The Stable outlook reflects ICRA's expectation that the credit profile of RCF in the near to medium term will continue to be supported by its market position in the fertiliser segment and its strategic importance to the GoI. Further, the favourable demand and expected healthy margins for industrial chemicals in the near term will also support the company's financial profile.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, the liquidity position and rating sensitivities: [Click Here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser Entities Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Parent: Government of India The ratings factor in the parentage of the GoI and the strategic importance of RCF for the GoI, given the company is a major fertiliser supplier in the country
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rashtriya Chemicals and Fertilizers Limited. As on March 31, 2022, the company had three JVs, that are enlisted in Annexure-II

About the company

Rashtriya Chemicals & Fertilizers Limited (RCF), established in 1978, has a diversified product portfolio, comprising urea (~50% of overall sales), complex fertilisers (~11%), traded fertilisers and industrial chemicals. RCF has plants in Trombay and Thal. The Thal unit primarily manufactures urea apart from some industrial products and has a capacity of 20 lakh tonnes per annum (tpa). The Trombay unit manufactures various industrial products and has a capacity of 3.3 lakh tpa for urea and 6.9 lakh tpa for complex fertilisers. The industrial chemicals portfolio includes more than 15 products, such as methanol, methylamines, di-methyl formamide, ammonium nitrate melt, nitric acid and ammonia. The company has expanded its revenue stream and product portfolio through traded sales of imported di-ammonium phosphate and muriate of potash. The GoI holds 75% of RCF's equity, while financial institutions and the public own the remaining.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	9M FY2023*
Operating income	8281.2	12812.2	16767.6
PAT	381.9	704.4	795.7
OPBDIT/OI	9.1%	7.7%	7.6%
PAT/OI	4.6%	5.5%	4.7%
Total outside liabilities/Tangible net worth (times)	1.3	1.7	-
Total debt/OPBDIT (times)	2.8	3.0	-
Interest coverage (times)	4.2	7.9	7.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
				Mar 27, 2023	Oct 20, 2022		Mar 26, 2021	Feb 24, 2021	Mar 12, 2020	July 23, 2019
1 Cash credit	Long term	1,100	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)
2 Term loan	Long term	4,000	4,000	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)
3 Non convertible Debentures	Long term	1,000	500	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)
4 Commercial paper programme	Short term	3,000	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based term loan	Simple
Long term – Fund-based/Cash credit	Simple
Long term – Non-convertible debentures	Simple
Short term – 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
INE027A07012	NCD	FY2021	6.59%	FY2026	500.0	[ICRA]AA (Stable)
INE027A08010	NCD	FY2022	6.59%	FY2025	300.0	[ICRA]AA (Stable)
Not listed yet	NCD	NA	NA	NA	200.0	[ICRA]AA (Stable)
NA	Cash Credit	NA	NA	NA	1,100.0	[ICRA]AA (Stable)
NA	Term Loan 1	FY2018	NA	FY2029	200.0	[ICRA]AA (Stable)
NA	Term Loan 2	FY2021	NA	FY2024	40.0	[ICRA]AA (Stable)
NA	Term Loan 3	FY2021	NA	FY2028	116.0	[ICRA]AA (Stable)
NA	Proposed term loans	NA	NA	NA	3,644	[ICRA]AA (Stable)
Not placed	Commercial Paper	NA	NA	1-365 days	3,000.0	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
FACT-RCF Building Products Ltd. (FRBL), Kochi	50.00%	Equity Method
Urvarak Videsh Limited (UVL)	33.33%	Equity Method
Talcher Fertilizers Limited (TFL)	33.33%	Equity Method

Source: Company

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