

June 30, 2023

Rashtriya Chemicals and Fertilizers Limited: Ratings reaffirmed; rating assigned for fresh NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loan	4,000	4,000	[ICRA]AA(Stable); reaffirmed
Long term – Fund-based/Cash credit	1,100	1,100	[ICRA]AA(Stable); reaffirmed
Long term – Non-convertible debentures	1,000	1,000	[ICRA]AA(Stable); reaffirmed
Long term – Non-convertible debentures	-	1,000	[ICRA]AA(Stable); assigned
Short term – Commercial paper	3,000	3,000	[ICRA]A1+; reaffirmed
Total	9,100	10,100	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation considers 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 its 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 its 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 FY2023, aided by a healthy increase in profit contribution from fertilisers and industrial chemicals. Moreover, timely payments of subsidy supported the fertiliser segment, despite the sharp increase in natural gas and other raw material prices. However, the operating profits are expected to witness moderation in FY2024 owing to the softening in profit margins from industrial chemicals and reduction in profitability from urea as the decline in gas prices will lower the gain from energy savings.

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 the company has undertaken, although some of these projects have witnessed delays.

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

The company has large capex plans in the medium term for the modernisation, backward integration as well as product diversification, which will be funded by debt and internal accruals, 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 in the revival project of the Talcher unit of Fertiliser Corporation of India (FCI), with the other stakeholders being Coal India Limited and GAIL Limited, 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 on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its market position in the fertiliser sector and its strategic importance to the GoI and will generate healthy cash flows from operations, driven by improvement in energy consumption and a healthy share of the industrial chemicals segment.

Key rating drivers and their description

Credit strengths

Large sovereign ownership and established position as one of the largest urea manufacturers - The GoI remains the largest stakeholder with a 75% share in RCF. The large sovereign ownership results in high degree of financial flexibility for the company. The company has access to debt markets at competitive rates to support its liquidity profile. Further, RCF remains one of the largest urea manufacturers in India and has established position in about 10 states in the western, central and southern parts of India on the back of its strong market presence. Further, trading of products like diammonium phosphate (DAP) and muriate of potash (MOP) helps to provide a wider basket of products to farmers.

Product diversity and vertically integrated operations - The operations of RCF are characterised by a high level of vertical integration across its fertilisers and chemicals, thereby allowing high value addition and diversification. The strength of the company lies in its product diversity and ability to switch between product streams in line with the market conditions.

Healthy operating efficiency for urea operations - The company has maintained high operating efficiency at the Thal and Trombay units with a capacity utilisation of ~95-100%. However, tightening of energy norms from October 2020 (to 6.538 Gcal/MT) has negatively impacted the profitability at Trombay due to lower energy savings; however, the company is revamping projects to reduce its energy consumption levels, which would partly negate the aforementioned impact over the medium term.

Credit challenges

Sensitivity of cash flows to delays in subsidy receipts and other regulatory risks – Subsidy inflow from the GoI had remained outstanding for 5-6 months in the past few years till FY2021, which impacted the cash flows of fertiliser companies and increased the working capital debt requirements. However, in FY2021, as part of the Rs. 65,000-crore subsidy announced under the Aatmanirbhar Bharat Package 3.0 for the fertiliser sector, RCF received additional subsidy, which substantially reduced its subsidy arrears and reduced the short-term borrowings. Consequently, the company's debt coverage metrics have strengthened. Subsidy receipts from the Government have remained timely in the last few years. Nevertheless, ICRA notes that the fertiliser sector, being highly regulated, remains vulnerable to changes in regulations by the GoI.

Susceptible of profitability to fluctuations in natural gas prices – Natural gas is the key raw material for the company for manufacturing urea and industrial chemicals. Energy savings from the urea segment are affected by decrease in natural gas prices. Further, the profitability from industrial chemicals remains susceptible to fluctuations in natural gas prices.

Large debt-funded capex plans over the medium term - RCF is one of the JV partners for a greenfield coal gasification-based urea plant at Talcher (Odisha), which would entail sizeable equity infusion of about Rs. 1,200 crore as well as expose the company to project execution risks. The company has already contributed ~Rs. 805 crore as of March-end 2023, and the balance is to be infused over the next two years. The company has capex plans over the next few years, for which ~Rs. 600-700 crore will be incurred in each financial year, to be funded through a mix of debt and internal accruals. As the company's internal accruals are not adequate, most of these investments are likely to be debt-funded and will yield returns only over the longer term, which may put some pressure on its key credit metrics over the medium term.

Environmental and Social Risks

Global efforts towards decarbonisation and focus on the impact of fertiliser use on soil health may lead to the development of new types of fertilisers and lower the demand for conventional fertilisers. However, in India, ICRA does not expect any material impact on conventional fertiliser offtake in the near to medium term, given the country's import dependence as well as the time taken by the end-consumers to accept new products. Fertiliser manufacturing, particularly urea, has a significant carbon footprint as natural gas is the key raw material for the synthesis of hydrogen which goes into the production of ammonia and thereafter urea. The GoI is exploring the passing of a mandate for the procurement of green hydrogen by refineries and fertiliser plants, it will lead to additional cost burden on urea manufacturers. ICRA expects the GoI to provide adequate policy support to the sector if it decides to mandate the sector to meet a part of its hydrogen requirement through the green route.

Rising awareness about the use of chemical fertilisers in farming and the growing clamour for organic produce can impact fertiliser offtake. However, the productivity in organic farming remains low at present and thus the near-term risk to fertiliser offtake is low. Going forward, in a scenario of technological breakthroughs resulting in organic alternatives with equal or better productivity can pose a significant threat to fertiliser offtake, although the threat remains long term in nature.

Liquidity position: Adequate

The company enjoys high financial flexibility due to its sovereign ownership, resulting in easy access to the debt markets which lends comfort from a credit perspective. The company has a comfortable cushion in the form of unutilised working capital limits, indicated by the low utilisation of 22% of the sanctioned limits and 33% of its drawing power for the 12-month period ended March 2023. The company has capex plans over the next few years, for which ~Rs. 600-700 crore will be incurred in each financial year, to be funded through a mix of debt and internal accruals. Further, the company has a balance equity investment commitment of ~Rs. 400 crore towards the Talcher unit over the next two years. The repayment obligations are ~Rs. 100 crore in FY2024 and ~Rs. 417 crore (including NCD redemption of Rs. 300 crore) in FY2025. However, the liquidity profile of RCF is expected to remain adequate due to expected healthy cash accruals in FY2024 and availability of unutilised limits.

Rating sensitivities

Positive factors – A substantial improvement in profit margins amid a healthy working capital intensity and an adequate liquidity profile on a sustained basis could lead to an improvement in ratings.

Negative factors – A sustained decline in revenues and margins, or any stretch in the working capital position of the company owing to a receivable period of more than 150 days will be negative for credit rating. Further, any deterioration in the debt metrics owing to any large debt-funded capex/investments or weak profitability will put pressure on the rating. Additionally, reduction in the GoI's stake below 51% could lead to a downgrade.

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, as 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, 2023, the company had three JVs, which are enlisted in Annexure-II

About the company

Rashtriya Chemicals & Fertilizers Limited (RCF), established in 1978, has a diversified product portfolio of urea (~52% of overall sales in FY2023), complex fertilisers (~16%), traded fertilisers (~17%) and industrial chemicals (~15%). RCF has two plants in Maharashtra — one each at Trombay and Thal. The Thal unit is primarily engaged in the production of urea (capacity of 2 mmtpa), besides a few industrial chemicals. The Trombay unit manufactures a wide range of industrial products, complex fertilisers (capacity of 0.66 mmtpa) and urea (capacity 0.33 mmtpa). The company's industrial chemicals portfolio comprises 15 products, such as ammonium nitrate, nitric acid and methylamines. The Government of India holds a 75% stake in the company.

Key financial indicators (audited)

RCF Consolidated	FY2022	FY2023
Operating income	12812.2	21451.5
PAT	704.4	967.2
OPBDIT/OI	7.8%	6.9%
PAT/OI	5.5%	4.5%
Total outside liabilities/Tangible net worth (times)	1.7	1.1
Total debt/OPBDIT (times)	3.0	1.3
Interest coverage (times)	7.6	6.6

Source: Company, ICRA Research ; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31,2023(Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
					Jun 30, 2023	March 27, 2023	Oct 20, 2022	Oct 22, 2021	Mar 26, 2021	Feb 24, 2021	
1	Cash credit	Long term	1,100	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	
2	Term Loan	Long term	4,000	333.8	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	
3	Non-convertible debentures	Long term	1,000	800.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	
4	Non-convertible debentures	Long term	1,000	--	[ICRA]AA (Stable)	-	-	-	-	-	
5	Commercial paper programme	Short term	3,000	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Non-convertible debentures	Simple
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)
Yet to be placed	NCD	NA	NA	NA	1200.0	[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	Term Loan 4	FY2024	NA	FY2030	180.0	[ICRA]AA(Stable)
NA	Term Loan 5	FY2024	NA	FY2024	170.0	[ICRA]AA(Stable)
NA	Proposed term loans	NA	NA	NA	3294.0	[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	RCF 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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

B Kushal Kumar
+91 40 4547 4829
kushal.kumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Sankalpa Mohapatra
+91 40 4547 4829
sankalpa.mohapatra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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