

July 31, 2023

Paradeep Phosphates Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------------|--------------------------------------|-------------------------------------|------------------------------|
| Term loans | 2,000.00 | 2,000.00 | [ICRA]A (Stable); reaffirmed |
| Fund based – Long-term facilities | 3,000.00 | 2,700.00 | [ICRA]A (Stable); reaffirmed |
| Non-fund based short term facilities | 9,000.00 | 8,000.00 | [ICRA]A1; reaffirmed |
| Commercial Paper programme | 1,000.00 | 300.00 | [ICRA]A1; reaffirmed |
| Total | 15,000.00 | 13,000.00 | |

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in expectations of healthy cash generation from the operations of Paradeep Phosphates Limited (PPL) amid steady receivable levels, given the timely receipt of subsidy from the GoI. Moreover, the commissioning of the backward integration projects will make the operations more cost-effective.

PPL's revenues and volumes are likely to increase with the stabilisation of the operations of the Goa unit and completion of the debottlenecking of its facilities at Paradeep, which will increase its manufacturing capacity to 1.8 MMTPA from 1.3 MMTPA, along with the addition of 1.2-MMTPA capacity from ZACL's assets. However, the ability of the company to sell the increased volumes remains to be seen.

The contribution margins on the sale of phosphatic fertilisers are expected to improve in Q2 FY2024 because of the sharp decline in raw material prices compared to the nutrient-based subsidy (NBS) rates. This is expected to improve the cash flow generation with the expected rise in sales volume. However, ICRA will continue to monitor the impact of the likely revision in the NBS rates in October 2023.

PPL's revenues witnessed a healthy YoY growth of 69.8% in FY2023, driven by a sharp increase in realisation of both phosphatic fertilisers and urea, along with the increase in volumes. The phosphatic fertiliser subsidy had also increased sharply under the NBS scheme with the spike in prices of raw material as well as finished fertilisers in the international markets. As a result, the overall realisation of phosphatic fertilisers witnessed a sharp jump in FY2023. In H2 FY2023, prices of raw materials as well as finished fertilisers started moderating due to which the Government revised the NBS rates downwards and a retrospective revision was done w.e.f. January 01, 2023, resulting in inventory losses of around Rs. 180 crore for PPL.

In FY2023, the volume growth was restricted to some extent by the delay in starting NPK production at the Goa plant due to delays in tying up the supply chain for raw materials. Lower profitability on sales of DAP and some grades of NPK due to elevated raw material prices also constrained volume growth. Going forward, the volumes are expected to increase and drive the revenue, though the realisations are likely to moderate.

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 position in its marketing circles. The ratings also factor in the substantial gap between domestic production and consumption, leading to limited demand-related risks, and the company's healthy cost position due to its high operating efficiency and part backward integration into the manufacture of phosphoric acid and sulphuric acid. The company has established relations with its overseas raw material supplier i.e. OCP Morocco, as the latter belongs to the promoter group, ensuring smooth availability of raw materials and some cost benefits.

The ratings are constrained by the vulnerability of the company's profitability to agro-climatic and regulatory risks. The ratings also continue to factor in the company's relatively high segmental concentration towards phosphatic/complex fertilisers, its

significant exposure to forex fluctuation risks and the working capital intensity of the fertiliser business. The performance of P&K fertiliser manufacturers is vulnerable to Government regulations on fixed subsidy levels and to economic variables, such as nutrient content, commodity prices and currency movements. Further, the ability of the company to sell the increased volumes will remain a key monitorable.

ICRA also takes note of PPL's capex programmes, including capacity expansion of its phosphoric acid and sulphuric acid plants and installation of a phosphoric acid evaporator. The debt for these projects and increase in the working capital debt is likely to keep the debt levels elevated in the near term, with major debt reduction expected from FY2025 in the absence of any major capex plans thereafter. This will translate into high debt/OPBDITA levels in the near term. Going forward, the stabilisation of these projects will remain the key monitorable.

The Stable outlook on the rating reflects ICRA's expectations of a steady cash flow generation with increase in the scale of operations (volumes), while benefitting from the long track record of operations.

Key rating drivers and their description

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 1.5MMTPA, post the debottlenecking of three trains in FY2021 and FY2022. The capacity has increased further to 1.8 MMTPA in FY2023 post the debottlenecking of the remaining line. After the acquisition of ZACL's assets, the company will have around 2.6 MMTPA of annual manufacturing capacity of phosphatic fertilisers, making it the third-largest P&K manufacturer in the country.

Leading market position in DAP and NPK complexes in most regions - PPL enjoys a leading market share in states such as Odisha, West Bengal, Bihar and Uttar Pradesh. With the acquisition of ZACL's assets, PPL will enhance its market reach to the southern and western markets. PPL has a network of 2,540 dealers and 25,000-30,000 retailers.

Efficient cost structure with part backward integration; to improve with increase in phosphoric acid manufacturing capacity - PPL's operations are partially backward integrated into the production of phosphoric acid by using rock phosphate and sulphuric acid, which provides cost advantage to PPL as the phosphoric acid produced is cheaper than the imports. PPL had commissioned a 1.32-MMTPA sulphuric acid plant in FY2016, which has improved the cost structure of the company owing to the lower cost of power (produced from steam generated from the sulphuric acid plant) and sulphuric acid. Additionally, the company is in midst of installing an evaporator to increase the in-house production of strong phosphoric acid. The ramp-up in phosphoric acid production capacity to 1,500 TPD (currently 1100 TPD) is likely to increase the extent of backward integration, which will improve the contribution margins.

Smooth availability of key 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. As OCP is one of its promoters, PPL does not face any challenge in procuring its key raw material, in addition to getting financial benefits on the purchases.

Credit challenges

Vulnerability of profitability to regulatory policies in fertiliser sector and agro-climatic risks - The agriculture sector in India remains vulnerable to the vagaries of the monsoon as the area under irrigation remains low. The sector is highly regulated and remains vulnerable to the changes in regulations by the GoI.

Vulnerability of profitability to volatility in raw material prices and cyclicity inherent in fertiliser business - Fertiliser production heavily relies on various raw materials, such as natural gas (for nitrogen-based fertilisers), phosphate rock (for phosphate-based fertilisers) and potash (for potassium-based fertilisers). These raw materials are subject to price fluctuations in the global commodity markets due to various factors, including supply and demand dynamics, geopolitical events, weather

conditions and currency exchange rates. When raw material prices are stable or declining, fertiliser companies can maintain or improve their profit margins. However, sudden spikes in raw material costs can significantly impact profitability. Moreover, the demand for fertilisers is closely tied to the agricultural sector, which itself is subject to cyclical fluctuations based on factors such as weather conditions, planting seasons, crop prices, Government policies and global economic conditions.

Sensitivity of cash flows to timely release of subsidy by GoI - In the past, fertiliser companies have witnessed significant cash-flow mismatches owing to the delay in the release of subsidy by the GoI due to inadequate subsidy budgeting. The subsidy receipt from the GoI remained timely in FY2022 and FY2023, post the clearance of the subsidy backlog in FY2021. Going forward, the timeliness of the subsidy receipt from the GoI will remain a key monitorable.

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. With the GoI 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. Though, 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 liquidity position of the company remains adequate to meet its capex and working capital requirements, given the adequate cash accruals and access to sanctioned fund-based working capital limits and term loans for the ongoing capex programmes. The company had nearly Rs. 109.9 crore of free cash at the end of FY2023, which coupled with the cushion in working capital limits, supports the company's liquidity position.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company demonstrates an improvement in its liquidity position along with a ramp-up in sales volumes, leading to a sustained improvement in the credit metrics, healthy profitability and lower working capital borrowings.

Negative factors – A decline in profitability leading to a deterioration in the debt metrics could lead to a downgrade. Moreover, a stretch in the receivable days on a sustained basis, resulting in increased reliance on working capital borrowings, will lead to 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

The ratings are based on standalone financials of the company

About the company

Paradeep Phosphates Limited (PPL) is one of India's largest private sector phosphatic players, producing a wide range of phosphatic grades, including DAP, N-10, N-12, N-14, N-19, N-20 and N28. The company was incorporated in 1981 as a joint venture between the Government of India (GoI) and the Republic of Nauru (RN) to set up a phosphatic fertiliser manufacturing unit at Paradeep, Odisha. Later, in 1993, with the divestment of RN's stake, PPL became a public sector enterprise (PSU). Subsequently, in 2002, the GoI decided to divest close to 80% of its stake to Zuari Maroc Phosphates Pvt Ltd (ZMPPL), a joint venture of Zuari Agro Chemicals Limited (ZACL) and the OCP Group S.A. Zuari Agro Chemicals was an established fertiliser player of the country with a manufacturing unit in Goa. The OCP Group, based in Morocco, is one of the world's largest phosphatic players, having control over 70% of the world's known phosphate reserves, with a revenue of over \$10 billion.

On March 1, 2021, PPL entered into a business transfer agreement with ZACL for the purchase of its fertiliser plant in Goa as a going concern on a slump sale basis, for a total consideration equal to the enterprise value of \$280 million, equivalent to around Rs. 2,000 crore, as per the terms of BTA. The company started urea operations from June 2022 and will start NPK operations in September/October 2022.

In May 2022, PPL completed the Rs. 1,500-crore initial public offering (IPO), during which the GoI divested its remaining 20% stake. The company used part of the proceeds to complete the acquisition of the 1.2-million-MT fertiliser plant at Goa. At present, PPL has a total capacity of around 3.0 million MT, of which 0.4 million MT is urea and the balance 2.6 million MT is phosphates. The company has two large manufacturing facilities - one at Paradeep in Odisha and another at Zuarinagar, Goa. The raw materials used by PPL come from various countries such as Morocco, Jordan, Qatar and Saudi Arabia. For several raw materials, such as phosphate rock, phosphoric acid, ammonia and sulphur, the company has long-term supply agreements.

Key financial indicators

| PPL Standalone | FY2022 | FY2023 |
|--|---------|----------|
| Operating income | 7,858.7 | 13,340.7 |
| PAT | 397.8 | 303.7 |
| OPBDIT/OI | 9.4% | 6.8% |
| PAT/OI | 5.1% | 2.3% |
| Total outside liabilities/Tangible net worth (times) | 2.6 | 2.0 |
| Total debt/OPBDIT (times) | 4.0 | 5.2 |
| Interest coverage (times) | 8.6 | 3.1 |

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2024) | | Chronology of rating history for the past 3 years | | | | | |
|-----------------------------------|------------|--------------------------|---|---|-------------------------|---|--|--|--|
| | | Amount rated (Rs. crore) | Amount outstanding as on Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | | Date & rating in FY2021 | |
| | | | | Jul 31, 2023 | Jul 29, 2022 | Jul 16, 2021 | Nov 06, 2020 | Jul 20, 2020 | |
| 1 Term loans | Long term | 2,000.0 | 970.8 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A @; Rating on watch with negative implication | [ICRA]A @; Rating on watch with negative implications | [ICRA]A @; Rating on watch with negative implication | |
| 2 Fund based-long term facilities | Long term | 2,700.0 | - | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A @; Rating on watch with negative implication | [ICRA]A @; Rating on watch with negative implications | [ICRA]A @; Rating on watch with negative implication | |
| 3 Non-fund based facilities | Short term | 8,000.0 | - | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 @; Rating on watch with negative implication | [ICRA]A1 @; Rating on watch with negative implications | [ICRA]A1 @; Rating on watch with negative implication | |
| 4 Commercial paper | Short term | 300.0 | - | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 @; Rating on watch with negative implication | [ICRA]A1 @; Rating on watch with negative implications | [ICRA]A1 @; Rating on watch with negative implications | |

@= Under watch with negative implications

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|----------------------------|----------------------|
| Term loan | Simple |
| Long-term fund based limit | Simple |
| Short term non-fund based | Very Simple |
| Commercial paper | 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 |
|------|------------------------------------|------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Term loan-I | FY2017-FY2022 | 7.12%-9.0% | FY2023-FY2029 | 2,000.0 | [ICRA]A (Stable) |
| NA | Fund-based limits | - | - | - | 2,700.0 | [ICRA]A (Stable) |
| NA | Short term - Non-fund based limits | - | - | - | 8,000.0 | [ICRA]A1 |
| NA | Commercial paper (Unplaced) | - | - | - | 300.0 | [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: Not Applicable

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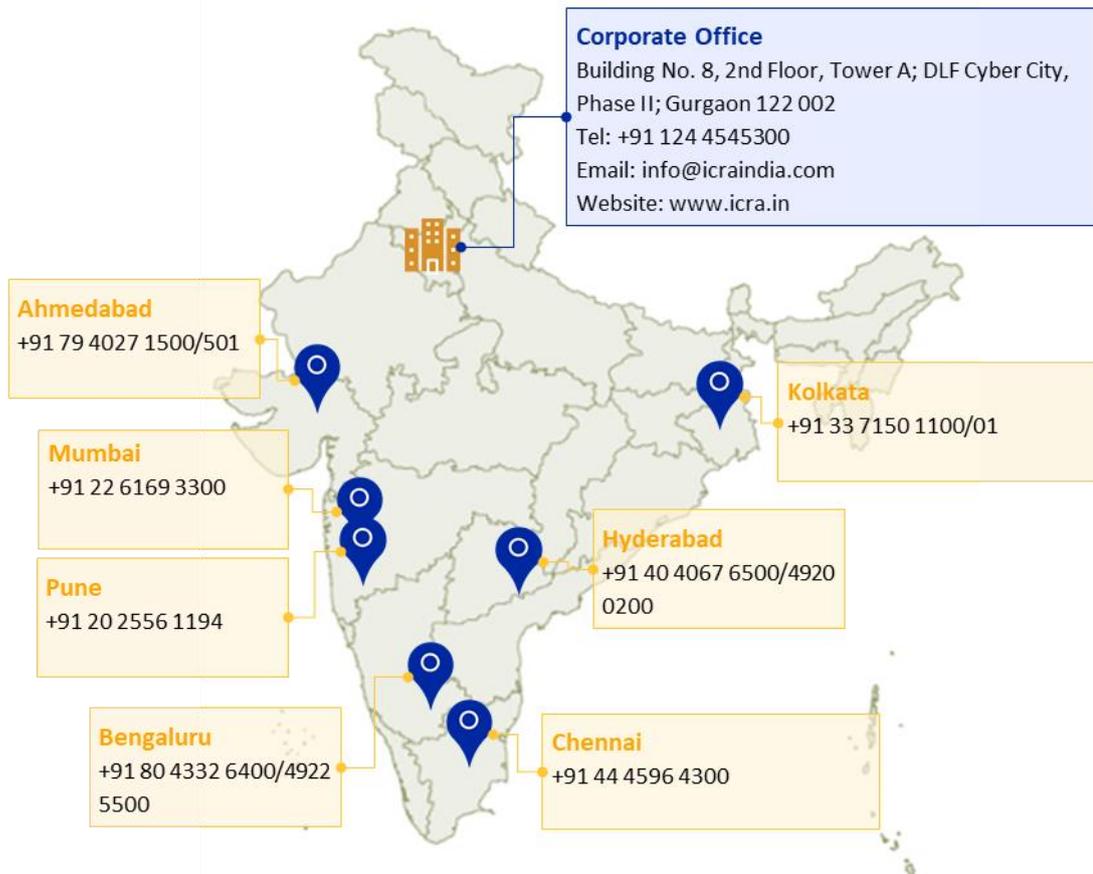
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