

January 04, 2024

Yara Fertilisers India Private Limited: [ICRA]AA-(Stable)/[ICRA]A1+ assigned

Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------------------|-------------------------------------|---------------------------------------|
| Long term – Fund-based - Cash credit | 2600.00 | [ICRA]AA-(Stable); assigned |
| Long term/Short term – Non-fund based | 1200.00 | [ICRA]AA-(Stable)/[ICRA]A1+; assigned |
| Total | 3800.00 | |

*Instrument details are provided in Annexure-I

Rationale

ICRA's rating action on the bank facilities of Yara Fertilisers India Private Limited (Yara India) factors in the strong parentage of the company and the demonstrated business and financial support from the parent, Yara International ASA (Yara), rated Baa2 (Stable) by Moody's Investors Service. Yara India owns and operates a urea unit at Babrala, Uttar Pradesh, which is one of the most energy-efficient plants in the country that enables the company to maintain healthy production levels and compete with imported urea.

The company has consistently improved its energy consumption that averaged at around 5.2 Gcal/MT for FY2023 against the normative norm of 5.417 Gcal/MT. The energy consumption has now reduced to around 5 Gcal/MT and is expected to go down below 5 Gcal/MT, resulting in substantial energy savings for the company. This is likely to support the profitability of Yara India. Typically, urea plants in India, including the Yara India unit, face under-recovery of fixed costs, and hence the profitability is largely driven by energy savings. Thus, further improvement in energy consumption will help improve the profitability at the current normative norms.

The ratings also factor in the steady and timely subsidy flow from the GoI over the last two years, which has lowered the net receivable outstanding and interest costs. Further, ICRA expects the GoI to continue to support the sector in terms of timely allocation and distribution of subsidy. Moreover, the company has repaid its long-term debt obligations and the debt on the books as of now is largely in the form of working capital borrowings, the utilisation of which remains comfortable with respect to the drawing power. ICRA also derives comfort from the long-term gas tie-up arrangements in place which ensures fuel availability.

The ratings are, however, constrained by the vulnerability of the fertiliser sector's profitability to regulatory policies and agro-climatic conditions, and the sensitivity of cash flows to timely subsidy receipts from the Government of India (GoI). The rating also factors in the vulnerability of profitability to foreign exchange fluctuations.

The Stable outlook on the rating reflects ICRA's expectation of Yara's credit profile to remain stable in the near to medium term, driven by the timely release of subsidy from the GoI and steady cash generation from the urea segment.

Key rating drivers and their description

Credit strengths

Strong parentage of Yara Group – Yara Fertilisers India Private Limited is a wholly-owned subsidiary of Yara International ASA {rated Baa2 (Stable) by Moody's} and receives significant support in the form of extended credit periods. Yara International ASA has also provided corporate guarantee and letter of comfort, backing the entire bank lines of the company. While Yara India can get extended credit period on the premium products imported from Yara International, the parent can also extend ECBs/any other financial support, if the need arises, as demonstrated in the past.

Healthy operational efficiency in urea plant – Yara India’s plant is one of the most energy-efficient plants in the country which enables the company to maintain healthy production levels and compete with imported urea. The low energy consumption is expected to ensure that the production from the Yara plant remains competitive against imported urea even in a scenario of partial or total decontrol of urea from the subsidy mechanism. Yara completed the energy saving capex of around Rs. 300-350 crore during March-May 2023. The energy consumption was around 5.2 Gcal/MT earlier, which has now reduced to around 5 Gcal/MT and is expected to go down further below 5 Gcal/MT.

Healthy capital structure – Yara’s capital structure has improved in the last couple of years owing to the timely receipt of subsidy by the GoI which has kept the working capital borrowings at lower levels. The total debt/OPBDITA improved to 3.0 times by the end of FY2023 against 9.5 times at the end of FY2020 owing to higher operating profits and lower borrowings. Further, with the repayment of the ECBs, the debt metrics are expected to improve further, if the subsidy flow remains timely.

Comfortable liquidity position and exceptional financial flexibility – The liquidity remains comfortable with the presence of sizeable cash balances as well as unutilised bank limits as on September 30, 2023. However, the company has used the cash to pay the parent’s ECB. While the cash levels have moderated, the working capital intensity has also remained low with the timely receipt of subsidy, resulting in lower utilisation of fund-based limits, ensuring a comfortable liquidity position for the company.

Credit challenges

Vulnerability of profitability to agro-climatic and regulatory risks of the fertiliser industry - The profitability of the sector remains vulnerable to the regulatory policies governing the sector with adequate subsidy allocation being one of the key factors impacting the sector’s credit profile. Additionally, delayed revision in the fixed costs for urea units continue to moderate the industry’s performance. The performance of the sector also depends on the monsoon as it directly impacts the agriculture sector, the end user of fertiliser. The profitability also remains vulnerable to foreign exchange fluctuations.

Sensitivity of cash flows to timely subsidy release by GoI - Fertiliser companies have witnessed significant cash flow mismatches in the past 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 after the clearance of the subsidy backlog in FY2021. Going forward, the timeliness of the subsidy receipt from the GoI will remain a key monitorable.

Liquidity position: Adequate

Yara’s liquidity position remains adequate, characterised by the availability of unutilised fund-based limits and limited capex plans. The company’s liquidity is also supported by the extended credit period offered by the parent.

Rating sensitivities

Positive factors – A sustained improvement in the profit margins amid a consistently healthy working capital intensity and an adequate liquidity profile on a sustained basis could result in an upgrade. A material diversification in revenue and profit generation into non-urea segments will also be a credit positive.

Negative factors – Deterioration in the working capital cycle, leading to receivable days of more than 150 days on a sustained basis, may lead to a downgrade. Any deterioration in debt metrics owing to any large debt-funded capex/investments or weak profitability will also put pressure on the ratings. Weakening of the linkages with the parent and moderation in the credit profile of the parent can also exert pressure on the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology – Fertilizers |
| Parent/Group support | Parent Company: Yara International ASA The ratings factor in the support from the parent in the form of extended credit period offered to Yara Fertilisers India Private Limited along with the corporate guarantees and comfort letters backing the bank lines |
| Consolidation/Standalone | The ratings are based on the standalone financials of Yara Fertilisers India Private Limited |

About the company

Yara Fertilisers India Private Limited (Yara India) is a wholly-owned subsidiary of Yara International ASA. Yara India was incorporated in 2011, in Maharashtra, for trading in speciality farm solutions, which were imported from the parent company. In January 2018, Yara India acquired the urea plant from Tata Chemicals for Rs. 2,670 crore. The manufacturing facility is located at Babrala, Uttar Pradesh, having a total capacity of around 1.27 MMTPA and is one of the most efficient manufacturing plants in the sector.

Key financial indicators (audited)

| | FY2022 | FY2023 |
|--|---------|---------|
| Operating income | 4,479.8 | 6,142.2 |
| PAT | 137.3 | 81.6 |
| OPBDIT/OI | 8.0% | 4.7% |
| PAT/OI | 3.1% | 1.3% |
| Total outside liabilities/Tangible net worth (times) | 1.1 | 1.2 |
| Total debt/OPBDIT (times) | 2.2 | 3.0 |
| Interest coverage (times) | 5.0 | 3.8 |

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 |
| | | | | Jan 04, 2024 | - | - | - |
| 1 Cash credit | Long term | 2600.0 | - | [ICRA]AA-(Stable) | - | - | - |
| 2 Non-fund based | Long term and short term | 1200.0 | - | [ICRA]AA-(Stable)/ [ICRA]A1+ | - | - | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---------------------------------------|----------------------|
| Long term – Fund-based- Cash credit | Simple |
| Long term/Short term – Non-fund based | 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 | Cash credit | NA | NA | NA | 2600.00 | [ICRA]AA-(Stable) |
| NA | Non-fund based | NA | NA | NA | 1200.00 | [ICRA]AA-(Stable)/[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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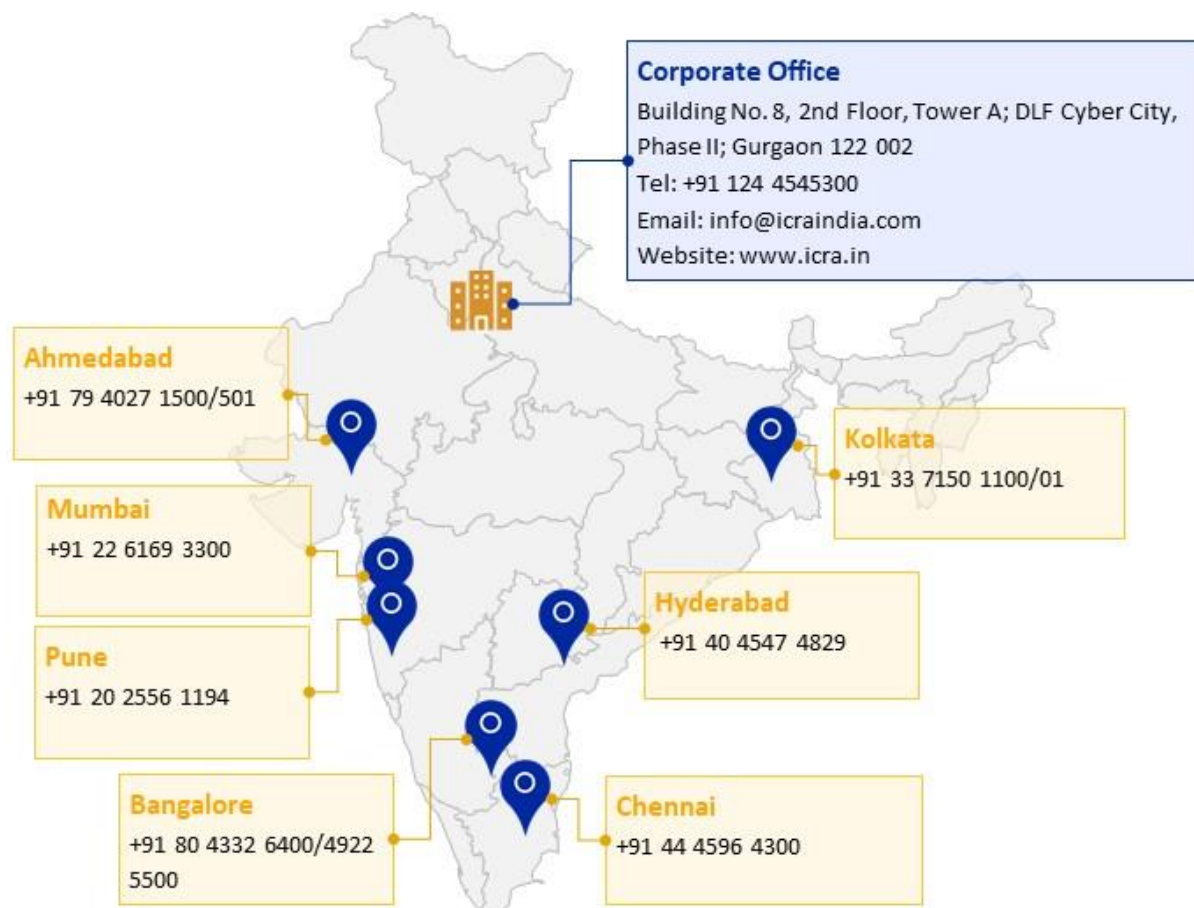


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