February 15, 2024

Paradeep Phosphates Limited – Placed on rating watch with developing implications

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Term loans	2,000.00	2,000.00	[ICRA]A; Placed on Rating Watch with Developing Implications
Fund based – Long-term facilities	2,700.00	2,700.00	[ICRA]A; Placed on Rating Watch with Developing Implications
Non-fund based short-term facilities	8,000.00	8,000.00	[ICRA]A1; Placed on Rating Watch with Developing Implications
Commercial Paper programme	300.00	300.00	[ICRA]A1; Placed on Rating Watch with Developing Implications
Total	**13,000.00**	**13,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

Material Event

The board of directors of Mangalore Chemicals and Fertilizers Limited (MCFL) and Paradeep Phosphates Limited (PPL), at their board meetings held on Feb 07, 2024, approved a composite scheme of arrangement for the merger of MCFL with PPL. The transaction is subject to the approval of the statutory authorities and other stakeholders. Upon the scheme of arrangement becoming effective, all shareholders of MCFL (as of a particular record date) will be issued shares of PPL in the ratio of 187 equity shares of PPL for every 100 equity shares of MCFL. Zuari Agro Chemicals Limited (ZACL) will transfer its 3,9206,000 shares to Zuari Moroc Phosphates Private Limited (ZMPPL) for a total consideration of around Rs. 564.56 crore.

Impact of material event

Following the announcement, ICRA has placed the rating of Paradeep Phosphates Limited on watch with developing implications. The proposed combined entity is likely to become one of the largest integrated private sector fertiliser companies in India, with a total manufacturing capacity of ~3.6 MMTPA. MCFL is present in the southern regions of India, while PPL is present in the northern, central and eastern parts of India, thus making the proposed combined entity a pan-India fertiliser company. This transaction involves some cash consideration between the promoter entities of the two companies along with share transfer for the balance shareholders. There is no cash outflow expected from PPL. Moreover, the shareholders of ZMPPL will invest in ZMPPL to ensure the holding of ZMPPL in the merged entity is maintained at 51%.

ICRA would continue to monitor the developments, and take appropriate rating action, as more clarity emerges on the merger.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, liquidity position, rating sensitivities, and key financial indicators: **Click here**

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Fertilizers
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the 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.

Recently, the company has announced the merger of MCFL with and into PPL.

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Feb 15, 2024	Jul 31, 2023	Jul 29, 2022	Jul 16, 2021	Nov 06, 2020	Jul 20, 2020
1	Term loans	Long term	2,000.0	1,142.0	[ICRA]A; Rating watch with developing implications	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A @	[ICRA]A @	[ICRA]A @
2	Fund-based long-term facilities	Long term	2,700.0	-	[ICRA]A; Rating watch with developing implications	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A @	[ICRA]A @	[ICRA]A @
3	Non-fund based facilities	Short term	8,000.0	-	[ICRA]A1; Rating watch with developing	[ICRA]A1	[ICRA]A1	[ICRA]A1 @	[ICRA]A1 @	[ICRA]A1 @

					implications					
4	**Commercial paper**	Short term	300.0		**[ICRA]A1; Rating watch with developing implications**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1 @**	**[ICRA]A1 @**	**[ICRA]A1 @**

@= Rating on watch with negative implication

Complexity level of the rated instrument

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, is available on ICRA's website: Click Here

Annexure-I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	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; Rating watch with developing implications
NA	Fund-based limits	-	-	-	2,700.0	[ICRA]A; Rating watch with developing implications
	Short term - Non-fund based limits	-	-	-	8,000.0	[ICRA]A1; Rating watch with developing implications
	Commercial paper (Unplaced)	-	-	-	300.0	[ICRA]A1; Rating watch with developing implications

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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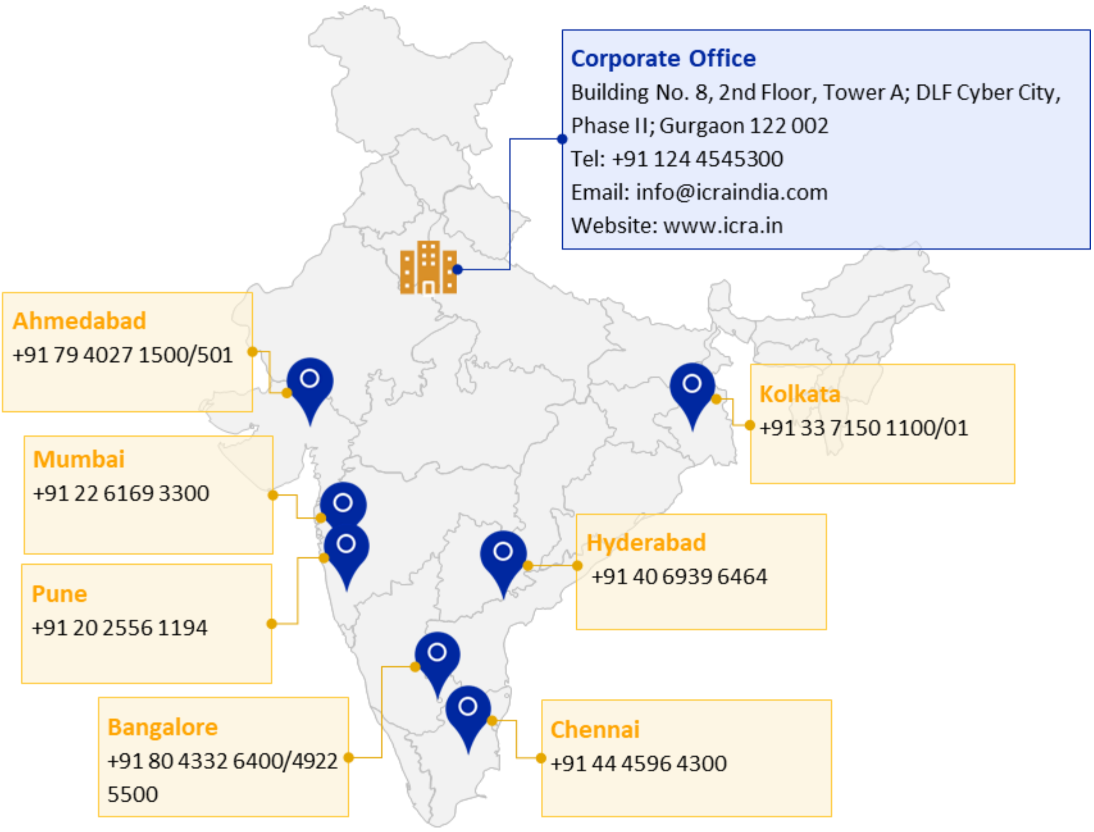

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