June 28, 2024

Rashtriya Chemicals and Fertilizers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	4,000.00	4,000.00	[ICRA]AA(Stable); reaffirmed
Long term – Fund-based/Cash credit	1,100.00	1,100.00	[ICRA]AA(Stable); reaffirmed
Long term – Non-convertible debentures	2,000.00	2,000.00	[ICRA]AA(Stable); reaffirmed
Short term – Commercial paper	3,000.00	3,000.00	[ICRA]A1+; reaffirmed
Total	**10,100.00**	**10,100.00**	

**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 also factor in the sustained comfortable receivable cycle owing to the timely release of subsidy by the Government of India (GoI) and expectation of the trend continuing. The ratings also factor in the low demand risk for urea and RCF's parentage with the GoI holding a 75% stake in the company and the exceptional financial flexibility arising out of its strategic importance to the GoI. Further, its large sovereign ownership and ability to access the debt markets at competitive rates supports its liquidity profile.

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 a potential reduction in import duty.

The company has large capex plans in the medium term for modernisation, energy-saving projects and 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. RCF is also one of the joint venture (JV) partners for the revival 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 takes note of the moderation in the company's financial profile in FY2024 compared to FY2023 owing to the softening in the profit margins in fertilisers and industrial chemicals. The profitability of the fertiliser manufacturing and trading segment was impacted by the revision of the Nutrient-based Subsidy (NBS) rates in October 2023, leading to inventory loss and lower realisations for the complex fertiliser. The trading portfolio was also impacted by high import prices and low subsidy. The Department of Fertilisers has assured RCF of protection of losses in the trading segment, which has shielded the profitability to some extent. Further, the profitability in urea was impacted by low urea import parity price, plant shutdowns and decline in gas prices (lowering the gain from energy savings). In FY2023, the industrial chemical segment reported very high profitability in line with industry trends, which moderated in FY2024, in line with the expectations. The dip in the company's operating profitability impacted the financial metrics in FY2024. Going forward, the operating profitability is expected to improve on the back of several energy-saving projects undertaken by the company and stable contribution from the chemical and complex fertiliser segments.

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 flow from operations, driven by improvement in energy consumption and a healthy share of industrial chemicals.

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 the debt markets at competitive rates to support its liquidity profile. Further, RCF remains one of the largest urea manufacturers in India and has an 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 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 robust operating efficiency at the Thal and Trombay units with high capacity utilisation. Further, the operating profitability is expected to improve because of the several energy-saving projects undertaken by the company.

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 flow of fertiliser companies and increased their 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 strengthened. Subsidy receipts from the Government have remained timely in the last few years and the trend is expected to continue. 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 a sizeable equity infusion of about Rs. 2,169 crore as well as expose the company to project execution risks. The company has already contributed ~Rs. 805 crore as of March-end 2024, and the balance is to be infused over the next two years. The company has sizeable capex plans over the medium term, 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 considering passing a mandate for refineries and fertiliser plants to procure green hydrogen, which may result in 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, 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 comfortable cushion in the form of unutilised working capital limits, indicated by the low utilisation of 10% of the sanctioned fund-based limits and 21% of its drawing power for the 12-month period ended March 2024. The company has sizeable capex plans over the next few years, to be funded through a mix of debt and internal accruals. Further, the company has a balance equity investment commitment of ~Rs. 1,364 crore towards the Talcher unit over the next two years. The repayment obligations are ~Rs. 453 crore (including NCD redemption of Rs. 300 crore) in FY2025 and ~Rs. 622 crore (including NCD redemption of Rs. 500 crore) in FY2026, however, these NCDs are likely to be refinanced. The liquidity profile of RCF is expected to remain adequate due to the availability of unutilised limits and high financial flexibility.

Rating sensitivities

Positive factors – A substantial improvement in the 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 company's working capital position 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	Fertilizers Corporate Credit Rating Methodology Chemicals
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, 2024, 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 (~51% of overall sales in FY2024), complex fertilisers (~13%), traded fertilisers (~25%) and industrial chemicals (~10%). 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	FY2023	FY2024
Operating income	21,451.5	16,981.3
PAT	967.2	227.7
OPBDIT/OI	6.9%	3.1%
PAT/OI	4.5%	1.3%
Total outside liabilities/Tangible net worth (times)	1.1	1.5
Total debt/OPBDIT (times)	1.3	6.3
Interest coverage (times)	6.3	2.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					June 28, 2024	Jun 30, 2023	March 27, 2023	Oct 20, 2022	Oct 22, 2021
1	Cash credit	Long term	1,100	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Term loan	Long term	4,000	593.4	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-convertible debentures	Long term	300	300	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Non-convertible debentures	Long term	500	500	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Non-convertible debentures	Long term	200*	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

6	**Non-convertible debentures**	Long term	1,000*	-	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**-**	**-**	**-**
7	**Commercial paper programme**	Short term	3,000	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

*Yet to be placed

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**	Aug 5, 2020	6.59%	Aug 5, 2025	500.0	[ICRA]AA(Stable)
INE027A08010	**NCD**	Jan 31, 2022	6.59%	Jan 31, 2025	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**	Dec 18, 2020	NA	Jun 18, 2028	200.0	[ICRA]AA(Stable)
NA	**Term loan 2**	Apr 20, 2023	NA	April 30, 2029	180.0	[ICRA]AA(Stable)
NA	**Term loan 3**	Jun 23, 2023	NA	Jun 25, 2029	170.0	[ICRA]AA(Stable)
NA	**Term loan 4**	Jan 31, 2024	NA	Apr 30, 2025	95.45	[ICRA]AA(Stable)
NA	**Proposed term loans**	NA	NA	NA	3,354.55	[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

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