January 29, 2025

Chambal Fertilisers & Chemicals Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Commercial paper programme	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
Total	**4,500.00**	**4,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the established position of Chambal Fertilisers & Chemicals Limited (CFCL) as a large urea manufacturer in the domestic market and a stable demand outlook for fertilisers, along with the company's energy-efficient urea operations. The rating factors in the healthy operational performance of CFCL's urea operations and the strong policy support for its G-III plant under the New Urea Investment Policy-2012 (NIP-2012), which contributes a major proportion to the overall profitability. While the volumes and profitability in the traded complex fertiliser segment remained muted in FY2024 and YTD FY2025 and is likely to remain this way in the near term, the crop protection chemical and specialty nutrient segment showed healthy sales growth and profitability. This trend is likely to continue, providing avenues for the diversification of revenue and profit towards the non-subsidy-based segments.

There has been a steady improvement in the urea operations because of efficient energy consumption of the G1 and G2 plants post the energy savings capex. However, CFCL's profitability from the trading operations moderated amid weak contribution from traded products, especially DAP (even after the special additional package offered by the government). Over the last few years, the subsidy payouts have been timely, which has resulted in a healthy liquidity build-up for the company. The strong liquidity aided the prepayment of the long-term debt and kept the reliance on short-term borrowings minimal, thereby resulting in a substantial improvement in the credit profile in the current fiscal.

The rating also factors in the vulnerability of CFCL's performance to agro-climatic conditions and regulatory risks. The credit profile remains vulnerable to fertiliser subsidy budgeting by the GoI. ICRA takes note of the Rs. 1,645-crore capex being undertaken by CFCL to set up a 2,40,000-MTPA technical ammonium nitrate (TAN) capacity and a 2,10,000-MTPA weak nitric acid capacity at its Kota facility. Given the healthy liquidity position (cash and equivalents of more than Rs. 2,800 crore as of September 2024), the capex is likely to be funded through internal accruals.

ICRA also notes that the company has exceptional financial flexibility, even as the promoters held a 60.4% equity stake in the entity (as on September 30, 2024), of which 22.02% shares were pledged.

Key rating drivers and their description

Credit strengths

Established position in domestic fertiliser industry - CFCL is the largest private sector urea manufacturer with a ~3.00-MMTPA installed capacity and the third-largest urea player in the country. CFCL has cemented its position as one of the leading players in the fertiliser sector with total fertiliser volume sales of ~2.20MMT (including urea and non-urea fertilisers in 6M FY2025). A strong marketing network comprising nearly ~3,800 dealers enables CFCL to reach a wide farmer base and reduces the marketing risk for the trading segment.

Favourable demand-supply scenario of urea in India due to price differential with non-urea fertilisers - After the implementation of the Nutrient-Based Subsidy (NBS) scheme in 2010 for non-urea fertilisers, there has been a significant price differential between urea and P&K fertilisers, which has resulted in farmers showing preference for urea due to its lower price. Overall, fertiliser use is expected to grow by around 1-3% in India, translating into comfortable demand prospects for the company.

Healthy energy efficiency and capacity utilisation of urea units; stable cash generation from urea - CFCL's urea plants continue to be one of the most energy-efficient urea plants in the country and are competitive against imported urea as well. The energy efficiency capex for the G1 and G2 plants has resulted in further savings. The plants have been able to maintain healthy capacity utilisation levels for the past several years, while the energy consumption has remained well below the normative norms defined by the fertiliser policy from time to time, aiding the profitability.

The cash generation from urea operations has increased significantly from FY2020 with the expanded capacity becoming operational in January 2019. Further, there is strong policy support from the New Urea Investment Policy-2012 (NIP-2012), assuring a floor of 12% and ceiling of 20% on post-tax return on equity (RoE). The cash generation from the urea operations is expected to remain comfortable, going forward, backed by strong operational performance and policy support, amid steady gas prices.

Strong financial flexibility - CFCL has healthy financial flexibility in terms of its ability to raise funds at highly competitive rates in a short period of time. CFCL has been using working limits sparingly due to timely subsidy inflow and the company has sizeable unutilised bank limits.

Credit challenges

Profitability exposed to policy changes and agro-climatic conditions - The profitability of the fertiliser sector is vulnerable to agro-climatic conditions as a major part of the country is still dependent on the monsoon. The profitability of the sector also remains vulnerable to the regulatory policies of the GoI, including the NBS rates, which have an impact on the traded products segment.

Credit profile vulnerable to GoI's subsidy budgeting - CFCL's credit profile will remain vulnerable to the adequacy of subsidy budgeting by the GoI. While the subsidy allocation remains adequate at present, any mismatch in the fertiliser subsidy allocation, going forward, may result in a subsidy backlog and, thus, higher working capital requirements.

Environmental and Social Risks

Global efforts towards decarbonisation and focus on impact of fertiliser use on soil health may lead to development of new types of fertilisers and lead to lower demand for conventional fertilisers. However, in India, ICRA does not expect any material impact on the conventional fertiliser offtake in the near to medium term, given India's import dependence as well as time taken by the end consumers to accept the new products.

Fertiliser manufacturing, particularly urea, has a significant carbon footprint as natural gas is the key raw material for synthesis of hydrogen which goes into 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 the chemical fertilisers in farming and growing clamour for organic produce can impact the fertilizer offtake. Although currently, the productivity in organic farming remains low and thus the near-term risk to fertilizer offtake remains low. Going forward, in a scenario of technological breakthroughs resulting in organic alternatives being developed for farming which can achieve equal or better productivity will pose significant threat to fertilizer offtake, although the threat remains long term in nature.

Liquidity position: Strong

CFCL's liquidity position is expected to remain strong in the near to medium term, with adequate cash generation from business and no committed debt repayments in the near future. Moreover, the working capital utilisation remains minimal, which along with cash balances of more than Rs. 2,800 crore as on September 30, 2024, provides a strong liquidity cushion. CFCL's ability to access the capital markets at a short notice and at highly competitive rates supports its liquidity position as well.

Rating sensitivities

Positive factors – NA

Negative factors – The rating would be under pressure if the working capital cycle is stretched owing to delay in the subsidy receivables from the GoI or any large debt-funded capex impacting the company's debt metrics. Further, any material sustained deterioration in the cash generation can result in a downward.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Fertilizers
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating for CFCL is based on the standalone financials of the company

About the company

Chambal Fertilisers & Chemicals Limited (CFCL) was promoted by Zuari Industries Limited, a K.K. Birla Group company, in 1985. The company has three urea manufacturing units at Gadepan (Kota, Rajasthan), based on natural gas feedstock. The total installed capacity of these units is around 3 million metric tonnes per annum (MMTPA). CFCL is India's largest private sector manufacturer of urea. The plants get natural gas through the Hazira-Vijaypur-Jagdishpur (HVJ) gas pipeline of GAIL.

The company is also involved in trading of agri-inputs such as complex fertilisers (DAP, MOP, SSP), pesticides, seeds, etc. In FY2013, CFCL commissioned an SSP plant at Gadepan with a capacity of 0.2 MMTPA.

CFCL also has a 33.33% stake in Indo Maroc Phosphore SA (IMACID), Morocco, a major producer of phosphoric acid, apart from having subsidiaries in the software and power businesses.

Key financial indicators (audited)

CFCL Standalone	FY2023	FY2024	H1FY2025*
Operating income	27,822.6	18,025.6	9,279.4
PAT	1,069.3	1,331.4	1,052.6
OPBDIT/OI	6.8%	11.7%	16.6%
PAT/OI	3.8%	7.4%	11.3%
Total outside liabilities/Tangible net worth (times)	0.8	0.6	0.5
Total debt/OPBDIT (times)	1.7	0.8	0.0
Interest coverage (times)	5.9	12.2	37.2

*Source: Company, ICRA Research; * Provisional numbers; 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

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	4,500.0	Jan 29, 2025	[ICRA]A1+	Jan 30, 2024	[ICRA]A1+	Jan 31, 2023	[ICRA]A1+	Jan 31, 2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
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
Unplaced	**Commercial paper programme***	NA	NA	NA	4500.0	[ICRA]A1+

*Source: Company; * - Unplaced*

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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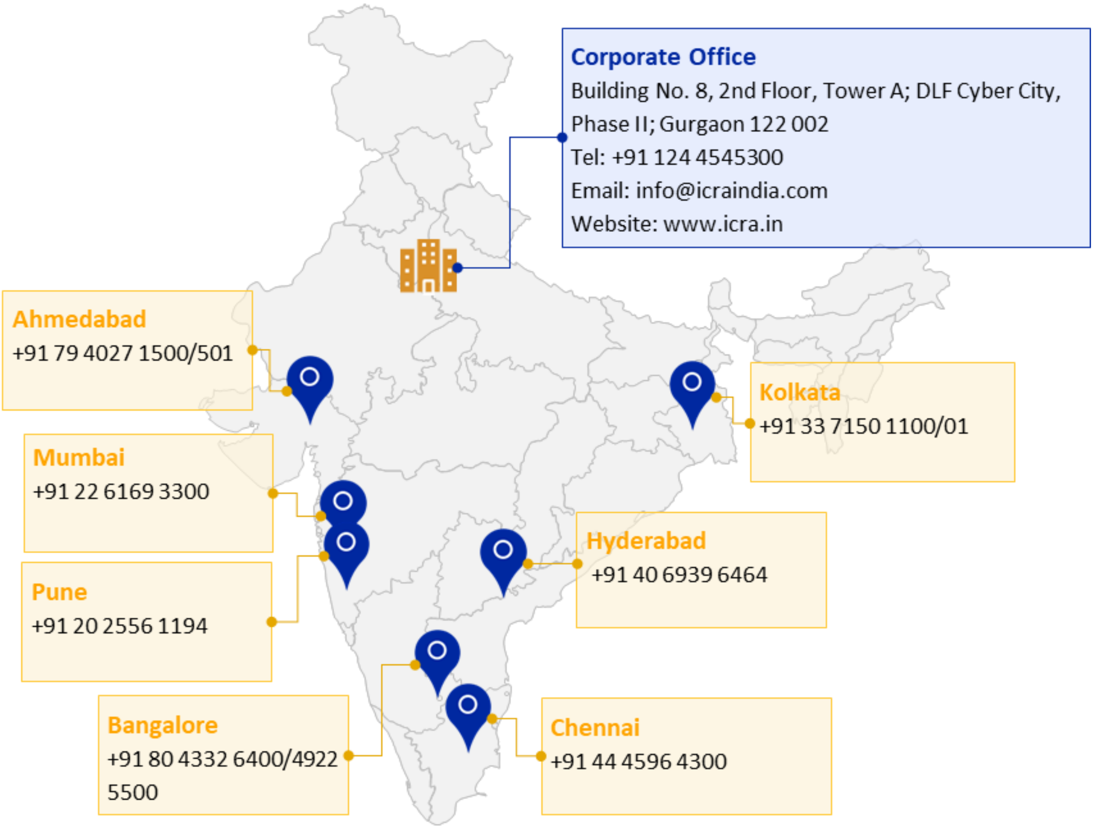

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