February 05, 2025

Talcher Fertilizers Limited: Rating downgraded; outlook revised to Negative

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund-based – Term loan	9,560.00	9,560.00	[ICRA] BBB+(negative); downgraded from [ICRA]A- (stable); outlook revised to negative from Stable
Total	**9,560.00**	**9,560.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating downgrade factors in the significant delays in the construction of Talcher Fertilizers Limited's (TFL) 1.27-MMTPA urea plant with coal gasification technology due to the operational bottlenecks caused by the Covid-19 pandemic as well as some changes in scope. The scheduled commercial date of operation (SCOD) has now been shifted by almost three years to June 2027. Besides the delays in project execution, there have been significant cost overruns of about Rs. 3,800 crore owing to increase in commodity prices, depreciation of the INR and the changes in scope.

The Negative outlook on the rating indicates uncertainty around the project's progress and rescheduling of the debt repayments to factor in the delay in SCOD. Further, operational bottlenecks with the LSTSK contractor slowing down the project significantly in the past add to the uncertainty.

The rating continues to take into account TFL's strong parentage - Coal India Limited, GAIL (India) Limited {GAIL, [ICRA]AAA(Stable)/[ICRA]A1+} and Rashtriya Chemical & Fertilisers Limited {RCF, [ICRA]AA (Stable)/[ICRA]A1+} - and a comfortable demand-supply outlook for urea in the country. The project holds strategic importance for the Government of India (GoI) as it would pave the way for utilising the coal gasification technology to produce fuels, chemicals and polymers using large reserves of indigenous coal that may face demand headwinds from other sectors over the long term due to climate change concerns. The project is also expected to reduce the country's dependence on imported natural gas to produce urea.

ICRA notes that the project cost is now estimated to rise to around Rs. 17,080 crore from Rs. 13,277 crore, with the increased cost to be primarily funded by equity infusion from the promoters. As on September 31, 2024, a capex of Rs 6,678 crore has been incurred, which is approximately 40% of the revised project cost.

The Department of Fertilizers (DoF) has formulated a policy assuring a 12% post-tax equity internal rate of return (IRR), which should result in healthy profitability and comfortable debt servicing. The detailed contours of the policy will be defined closer to the commissioning of the project. Hence, the higher equity funding component of the increased cost makes sure that the cash generation and DSCR remain comfortable throughout the life of the project.

The rating is, however, constrained by the high technological risk of operating the plant successfully with domestic coal that has high ash content, though the company plans to mitigate the risk by adopting state-of-the-art technology and blending the feedstock with petcoke along with some operational support from the LSTK contractor in the initial few months. The project also remains exposed to implementation risks owing to its large size and the relatively nascent technology as of now. ICRA notes that the LSTK contractor is a Chinese company, and the project execution could face further challenges due to geo-political issues.

The rating also factors in the vulnerability of the fertiliser sector's profitability and cash flows to regulatory policies, timely payment of subsidy by the GoI and agro-climatic conditions. Given the strategic importance of the project to the GoI, this project should get the requisite support for its execution.

Key rating drivers and their description

Credit strengths

Strategic importance of project to GoI - TFL's plant is the first unit to implement the shell coal gasification process (SGP) using Indian coal with high ash content. The project is of strategic importance for the Government of India (GoI) as its successful implementation would pave the way for utilising the coal gasification technology to produce fuels, chemicals and polymers using the large reserves of indigenous coal that may face demand headwinds from other sectors over the long term due to climate change concerns. This should also help reduce the dependence on imported natural gas for the production of urea.

Favourable demand-supply scenario for urea in India- The demand for urea has been growing at a steady pace over the years, with sales volume rising to 35.8 MMT in 2024 from 19.2 MMT in 2000.

After the announcement of the New Urea Investment Policy2012 (NIP-2012), Chambal Fertilisers & Chemicals Limited (CFCL, rated [ICRA]A1+) commissioned a 1.27-MMTPA urea plant in January 2019. Two new plants - one by Ramagundam Fertilisers & Chemicals Limited (RFCL) and the other by Matix Fertilisers & Chemicals Limited (MFCL) - of 1.27 MMTPA capacity each were commissioned in FY2022. Hindustan Urvarak & Rasayan Limited (HURL) commissioned three other plants of 1.27 MMTPA capacity each in FY2022 and FY2023.

With TFL's plant slated to be commissioned in mid-2027, the import dependence will be kept under check, which was around 19-20% of the total urea sold in FY2024. Thus, the demand-supply scenario remains favourable for urea in the country, also supported by the price differential between urea and phosphatic/potassic fertilisers. Even if there is surplus domestic urea, ICRA expects the offtake from the project to be optimal, given its strategic importance to the GoI and the locational advantage.

Strong promoter profile; sponsor support by promoters offers comfort - Promoters include the likes of CIL, GAIL, and RCF which have strong credit profiles and operational experience in handling coal mining, gas processing and fertiliser manufacturing &marketing. The promoters will also be providing a sponsor support undertaking (SSU) to the lenders to fund any cost overruns through equity, and the equity infusion has been timely till now. Several personnel from the promoter companies have been appointed in managerial and operational positions. The current managing director has been appointed by RCF, while the director finance has been bought in from CIL. The board of the company comprises senior managers from the promoters to have a close oversight over the execution of the project.

FSA with CIL provides feedstock security - Coal and petcoke will be the main raw materials to be used in the project. The company has entered into a long-term FSA with Coal India Limited for the supply of 3 MMTPA of coal, meeting the entire coal requirement of TFL from one of the coalfields of CIL. With Coal India Limited being one of the promoters, coal availability is not expected to be an issue. The company has also signed a memorandum of understanding (MoU) with Indian Oil Corporation Limited {IOCL, [ICRA]AAA(Stable)/[ICRA]A1+} to source petcock and the final agreement will be signed closer to the commissioning date.

Policy support - Given the high capex and new technology being implemented for urea production, the DoF has formulated a policy assuring a 12% post-tax equity IRR for 8 years from the date of production, which should ensure healthy profitability and comfortable debt servicing. While the policy has been announced by the DoF, the details will be finalised closer to the project commissioning as several engineering and financial parameters would have crystallised by then.

Credit challenges

Project implementation challenges and technology risks – The project's capital outlay has been revised upwards to Rs. 17,080 crore from Rs. 13,277 crore. Given the large size of the project, it remains vulnerable to execution risks. The project also remains exposed to technological risks as it is the first unit to implement the SCGP technology in India and could face stabilisation/operational issues. The project progress has remained slow in the past which has resulted in substantial time overruns.

Cost overruns may impact project IRR; policy support ensures healthy cash flows - The project will face cost overruns primarily due to some change is scope, which along with the delays caused by the pandemic and geo-political issues, have pushed back the SCOD by around 3 years from the original date. Although equity has been tied up for the cost overrun, the company is yet to tie up the additional debt, adding to the uncertainty over the project.

Vulnerability of profitability to agro-climatic risk and regulatory policies - The profitability of the fertiliser sector remains vulnerable to the regulatory policies of the GoI, including subsidy budgeting and policy formulation. The DoF has formulated a policy for TFL, assuring a 12% post-tax equity IRR which will ensure timely debt servicing and adequate returns for the project.

Agro-climatic risks such as weak monsoons will also impact the profitability of the fertiliser sector as the industry has to offer higher discounts at such times, given the stressed condition of the end-users.

Liquidity position: Adequate

TFL's liquidity will remain adequate to meet the funding requirements of the project as majority of the debt tie-up has been completed, while the equity contribution from the promoters has been timely. While there have been cost and time overruns and the promoters have agreed to infuse additional equity as per the requirements, a small portion of debt tie-up for the overruns is yet to be made. However, ICRA expects the promoters to extend support in case there are delays in tying up the additional debt.

Rating sensitivities

Positive factors – The outlook can be revised to Stable as the project progress resumes and the lenders approve the revised SCOD as well as repayment terms.

Negative factors – The rating may be under pressure if the progress continues to be slow, or if the lenders do not approve the revised plan. Moreover, further time and/or cost overruns impacting the project's returns and debt metrics will also be a negative for the company. Weakening of linkage or deterioration in the credit profile of the sponsors will also weigh on the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Fertilizers
Parent/Group support	Parent: GAIL (India) Limited (GAIL), Coal India Limited (CIL) and Rashtriya Chemicals & Fertilisers Limited (RCF) The rating takes into account the strength of the promoters and the sponsor support undertaking (SSU) signed with the lenders to fund cost overruns through the infusion of equity
Consolidation/Standalone	The rating is based on the projected standalone financials of the company

About the company

Talcher Fertiliser Limited (TFL) is a joint venture of GAIL (India) Limited {GAIL, rated [ICRA]AAA (Stable)}, Coal India Limited (CIL), Rashtriya Chemicals & Fertilisers Limited {RCF, rated [ICRA]AA (Stable)/[ICRA]A1+} with each having a 31.85% stake and the Fertiliser Corporation of India Limited (FCIL) with a 4.45% stake. The JV was formed to set up a new coal gasification based urea manufacturing plant at FCIL's Talcher site where a coal-based plant existed till 2002. The urea plant being set up at Talcher has a production capacity of 2,200 MTPD of ammonia and 3,850 MTPD of urea and is based on the coal gasification technology sourced from Shell Eastern Pte Limited (with the technology now acquired by M/S Air Products Limited, USA).

The company was allocated the north Arkhapal mine for sourcing coal though the mine has been found to be unviable. The coal will now be sourced from Mahanadi Coalfields. The total capital outlay for the project has been revised upwards to Rs. 17,081 crore from Rs. 13,277 crore due to change in scope. The zero date of the project was October 1, 2019, and the project was originally expected to be commissioned in 57 months from the zero date i.e. end of June 2024. The date has now been delayed and the project is expected to be commissioned in 2027.

Key financial indicators (audited)- As TFL is a project company, the key financial indicators have not been included

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)	Feb 05, 2025	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	9560.00	[ICRA]BBB+ (Negative)	Jan 19, 2024	[ICRA]A- (Stable)	Mar 21, 2023	[ICRA]A- (Stable)	Dec 14, 2021	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund based – Term loan	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**	FY2022	-	FY2035	9560.00	[ICRA]BBB+ (Negative)

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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ABOUT ICRA LIMITED

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