February 25, 2025

Paradeep Phosphates Limited: Long-term rating upgraded; ratings continue on watch with developing implications

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Term loans	2,000.00	2,000.00	[ICRA]A+; upgraded from [ICRA]A; continues on rating watch with developing implications
Fund based – Long-term facilities	2,700.00	2,700.00	[ICRA]A+; upgraded from [ICRA]A; continues on rating watch with developing implications
Non-fund based short-term facilities	8,000.00	8,000.00	[ICRA]A1; rating watch with developing implications; continues on rating watch with developing implications
Commercial paper programme	300.00	300.00	[ICRA]A1; rating watch with developing implications; continues on rating watch with developing implications
Total	**13,000.00**	**13,000.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade factors in expectations of Paradeep Phosphates Ltd's (PPL/the company) profitability improving amid steady receivable levels owing to a timely subsidy inflow from the Government of India (GoI), which is likely to improve PPL's credit profile. The profitability is expected to improve because of the commissioning of the backward integration projects in phosphoric acid and sulphuric acid that will make the operations more cost-effective. The backward integration into manufacturing phosphoric acid is materially EBITDA accretive vis-à-vis imported acid. Further, the energy saving capex at the urea plant will improve the profitability of the urea unit as well. The company is also in the process of commissioning a sulphuric acid plant at its Paradeep facility, enhancing the capacity to 2 MTPA from 1.4 MTPA. Moreover, there has been a steady growth in volumes, which has improved the capacity utilisation and ensured a steady growth in revenue generation.

The ratings factor in the strong sales volume growth of around 25% in FY2024 owing to robust demand. Further, with an NPK production capacity of 2.6 MMTPA, PPL is one of the largest private sector players in the industry. The ratings also factor in the substantial gap between domestic production and consumption, leading to limited demand-related risks. The company also displays a healthy cost position due to its high operating efficiency and part backward integration into the manufacturing of phosphoric acid and sulphuric acid. The company has established relations with its overseas raw material supplier i.e. OCP Morocco, as the latter belongs to the promoter group, ensuring smooth availability of raw materials and some cost benefits.

The ratings are constrained by the vulnerability of the company's profitability to agro-climatic and regulatory risks. The ratings also continue to factor in the company's relatively high segmental concentration towards phosphatic/complex fertilisers, its significant exposure to forex fluctuation risks and the working capital intensity of the fertiliser business. Moreover, the profitability remains vulnerable to the volatility in raw material prices and Government regulations on the subsidy levels. This has been visible in the current scenario when the retail price plus subsidy is inadequate to cover imported DAP prices, thereby resulting in losses at the contribution levels for DAP imports.

ICRA takes note of PPL's capex programmes, including the capacity expansion of its phosphoric acid and sulphuric acid plants and the energy efficiency capex at Goa. These projects will be funded through a mix of debt and internal accruals. While the long-term debt levels may not be reduced materially owing to these debt-funded capex programmes, the resultant increase in efficiency would support the overall credit profile.

ICRA also takes note of the ongoing merger between PPL and Mangalore Chemicals and Fertilizers Ltd (MCFL). The merged entity would have a capacity of 3.65 MMTPA, increasing the scale and reach of the combined entity. ICRA would continue to monitor the developments and would resolve the rating watch as more clarity emerges.

Key rating drivers and their description

Credit strengths

Established position as one of the largest manufacturers of DAP and complex fertilisers in India – PPL is one of the largest manufacturers of DAP/NPK fertilisers in the country, with a production capacity of 2.6 MMTPA after the acquisition of ZACL's assets. Through its two plants in Odisha and Goa, PPL reaches over 9 million farmers spread across 15 states. The scale and reach of the combined entity is expected to improve with the proposed merger with MCFL.

Leading market position in DAP and NPK complexes in most regions – PPL continues to enjoy a leading market share in states such as Odisha, West Bengal, Bihar, Karnataka, Maharashtra, Madhya Pradesh and Uttar Pradesh. With the acquisition of ZACL's assets, PPL has enhanced its market reach to the southern and western markets. With the proposed merger with MCFL, this reach is expected to widen further to Karnataka, Tamilnadu and Kerala. PPL has a network of more than 5,000 dealers and 75,000 retailers.

Efficient cost structure with part backward integration; to improve with increase in phosphoric acid and sulphuric acid manufacturing capacity – PPL's operations are partially backward integrated into the production of phosphoric acid by using rock phosphate and sulphuric acid, which provides cost advantage to PPL as the phosphoric acid produced is cheaper than the imports. During FY2025, the increased capacity of 0.5 million tonnes of phosphoric acid came onstream, leading to higher profitability. PPL is further working on expanding the phosphoric acid capacity to 0.7 million tonnes as well as the sulphuric acid capacity to 2 million tonnes from 1.4 million tonnes. It is also undertaking capex to improve the energy efficiency at its urea plant, which is expected to bring down the energy consumption of the Goa unit to 6.10 Gcal/MT vis-a-vis the norm of 6.5 Gcal/MT. These initiatives are expected to improve the cost structure further and improve the contribution margins, thereby aiding the overall profit generation.

Smooth availability of key raw materials – One of the promoters of PPL is Office Cherifien des Phosphates (OCP), Morocco, which is one of the largest producers of phosphoric acid globally. PPL has a long-term contract with OCP for the supply of rock phosphate as well as phosphoric acid. As OCP is one of its promoters, PPL does not face any challenge in procuring its key raw material, in addition to getting financial benefits on the purchase. Further, OCP also gives an extended credit period to PPL.

Credit challenges

Profitability vulnerable to regulatory policies in fertiliser sector and agro-climatic risks – The agriculture sector in India remains vulnerable to the vagaries of the monsoon as the area under irrigation remains low. The sector is highly regulated and remains vulnerable to the changes in regulations by the GoI.

Susceptible to volatility in raw material prices and cyclicality inherent in fertiliser business – Fertiliser production heavily relies on various raw materials, such as natural gas (for urea), rock phosphate, phosphoric acid, ammonia, and potash (for NPK fertilisers). These raw materials are subject to price fluctuations in the global commodity markets due to various factors, including supply and demand dynamics, geopolitical events, weather conditions and currency exchange rates. When raw material prices are stable or declining, fertiliser companies can maintain or improve their profit margins. However, sudden spikes in raw material costs can significantly impact the profitability, if the nutrient-based subsidy rates do not adjust commensurately.

Moreover, the demand for fertilisers is closely tied to the agricultural sector, which itself is subject to cyclical fluctuations based on factors such as weather conditions, planting seasons, crop prices, Government policies and global economic conditions.

Sensitivity of cash flows to timely release of subsidy by GoI – In the past, fertiliser companies have witnessed significant cash-flow mismatches owing to the delay in the release of subsidy by the GoI due to inadequate subsidy budgeting. However, the subsidy receipt from the GoI has remained timely over the last couple of years, keeping the working capital borrowings under check. Going forward, the timeliness of the subsidy receipt from the GoI will remain a key monitorable.

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. With the GoI considering passing a mandate for refineries and fertiliser plants to procure green hydrogen, urea manufacturers may have to bear an additional cost burden. 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. Though, the productivity in organic farming remains low at present and the near-term risk to fertiliser offtake is low. Also, the adoption of nano fertilizers is at a nascent stage. Going forward, technological breakthroughs to develop organic or nano alternatives with equal or better productivity can pose a significant threat to fertiliser offtake, although the threat remains long term in nature. Further, the company sells nano fertiliser products as well, which have a smaller carbon footprint.

Liquidity position: Adequate

The liquidity position of the company remains adequate to meet its capex and working capital requirements, given the sufficient cash accruals and access to sanctioned fund-based working capital limits and term loans for the ongoing capex programmes. The company had nearly Rs. 1,400 crore of cash and liquid investments as of December 2024-end, which coupled with the cushion in working capital limits, support the company's liquidity position.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company continues to achieve higher profitability, leading to a sustained improvement in its debt metrics.

Negative factors – A decline in profitability leading to a deterioration in the debt metrics could lead to a downgrade. Moreover, a stretch in the receivable days on a sustained basis, resulting in increased reliance on working capital borrowings, will put pressure on the ratings.

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 around an 80% 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 a fertiliser company with a fertiliser manufacturing unit at Goa. Morocco-based OCP Group is one of the world's largest phosphatic players, with a sizeable control over the world's known phosphate reserves.

In May 2022, PPL successfully completed a Rs. 1,500-crore initial public offering (IPO), during which the GoI divested its remaining 20% stake. The company also 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 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.

In February 2024, the company had announced a merger with Mangalore Chemicals and Fertilisers Limited, which has a 0.38-MTPA urea capacity along with a 0.28-MTPA NPK capacity in Mangalore. The merger is awaiting approvals from the stock exchanges and NCLT.

Key financial indicators (audited)

PPL Standalone	FY2023	FY2024	9M FY2025*
Operating income	13,340.7	11,575.1	10,362.2
PAT	303.7	99.2	392.5
OPBDIT/OI	6.8%	6.0%	8.8%
PAT/OI	2.3%	0.9%	3.8%
Total outside liabilities/Tangible net worth (times)	2.0	1.7	-
Total debt/OPBDIT (times)	5.2	5.8	-
Interest coverage (times)	3.1	1.9	3.5

*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

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	Feb 25, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	2,000.00	[ICRA]A+; rating watch with developing implications	Feb-15-24	[ICRA]A; rating watch with developing implications	Jul-29-22	[ICRA]A (Stable)	Jul-16-21	[ICRA]A @
	-	-	-	Jul-31-23	[ICRA]A (Stable)	-	-	-	-
Fund-based long-term facilities	Long term	2,700.00	[ICRA]A+; rating watch with developing implications	Feb-15-24	[ICRA]A; rating watch with developing implications	Jul-29-22	[ICRA]A (Stable)	Jul-16-21	[ICRA]A @
	-	-	-	Jul-31-23	[ICRA]A (Stable)	-	-	-	-
Non-fund based facilities	Short term	8,000.00	[ICRA]A1; rating watch with developing implications	Feb-15-24	[ICRA]A1; rating watch with developing implications	Jul-29-22	[ICRA]A1	Jul-16-21	[ICRA]A1 @
	-	-	-	Jul-31-23	[ICRA]A1	-	-	-	-
Commercial paper	Short term	300.00	[ICRA]A1; rating watch with developing implications	Feb-15-24	[ICRA]A1; rating watch with developing implications	Jul-29-22	[ICRA]A1	Jul-16-21	[ICRA]A1 @
	-	-	-	Jul-31-23	[ICRA]A1	-	-	-	-

@= Rating on watch with negative implication

Complexity level of the rated instruments

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 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-I	FY2017- FY2022	7.12%-9.0%	FY2025-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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