February 27, 2025

Mahadhan AgriTech Limited (erstwhile known as Smartchem Technologies Limited): Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based term loan	2,247.00	2,247.00	[ICRA]AA- (Positive); Reaffirmed & outlook revised to Positive from Stable
Long term – Fund-based cash credit	700.00	700.00	[ICRA]AA- (Positive); Reaffirmed & outlook revised to Positive from Stable
Short term – Non-fund based limits	3,550.00	3,550.00	[ICRA]A1+; Reaffirmed
Long term/Short term - Unallocated limits	3.00	3.00	[ICRA]AA- (Positive)/ [ICRA]A1+; Reaffirmed & outlook revised to Positive from Stable
Total	**6,500.00**	**6,500.00**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Deepak Fertilisers and Petrochemicals Corporation Limited (DFPCL) and its subsidiaries - Mahadhan AgriTech Limited (MAL) and Deepak Mining Solutions Limited (DMSL) - due to their managerial, operational and financial linkages, collectively referred to as the Group/consolidated entity.

The revision in the outlook to Positive from Stable on the long-term rating reflects ICRA's expectation of a healthy improvement in the credit profile of the Deepak Group - including Deepak Fertilisers & Corporation Limited {DFPCL, rated [ICRA]AA-(Positive)/[ICRA]A1+)}, Mahadhan AgriTech Limited {MAL, rated [ICRA] AA- (Positive)/[ICRA]A1+}, Performance Chemiserve Limited {PCL, rated [ICRA]AA-(Stable)/[ICRA]A1+} and Deepak Mining Solutions Limited (DMSL) – from FY2027, driven by the completion of the ongoing capex programme and a significant improvement in PCL's profitability.

The Deepak Group will witness a sizeable growth in its scale of operations and cash generation from FY2027 as the ongoing capex programmes for technical ammonium nitrate (TAN) under DMSL and for nitric acid under DFPCL are expected to be completed on time within the planned capital outlay. Additionally, from FY2027, the input gas cost for PCL is expected to moderate from the current levels, pushing up the Group's profitability. However, ICRA notes that the leverage and coverage metrics will moderate in FY2026 because of the debt being availed for the ongoing projects.

The ratings continue to factor in the company's diversified product portfolio comprising phosphatic fertilisers and industrial and mining chemicals. The ratings also factor in the Deepak Group's strong market position in the mining chemical business, especially in TAN, and the industrial chemicals business, particularly in nitric acid and iso-propyl alcohol (IPA). The completion of the ongoing capex plans will enhance the Group's market leadership in the TAN and nitric acid segment. The ratings also consider the Deepak Group's strong financial flexibility.

The ratings are, however, constrained by the agro-climatic and regulatory risks in the fertiliser business and the vulnerability of the chemical division's profitability to the inherent price cyclicality along with the volatility in natural gas prices. The ratings are also constrained by the project execution risk associated with the large debt-funded capex plans being undertaken by Group i.e., the TAN project at Gopalpur at a capital outlay of nearly Rs. 2,200 crore and the nitric acid plant at Dahej at a capital outlay of ~Rs. 1,985 crore. The company has incurred around Rs. 1,300 crore for these two projects by the end of December

2024 and the remaining capex is to be incurred in FY2026 and H1 FY2027. The large capex plan exposes the company to project execution risks and a timely commissioning of these projects within the proposed capital outlay will remain a key monitorable.

Further, ICRA notes that MAL had filed an appeal against an order of the Commissioner of Income Tax (Appeals) in response to the receipt of assessment and demand orders for the block period (assessment year 2015-2016 to assessment year 2019-2020) pursuant to the search operations conducted by the income tax department in November 2018. The department has raised a demand of Rs. 540.4 crore (including interest), which was decided against MAL by the Commissioner of Income Tax (Appeals). Thereafter, MAL has filed appeal against the order in the Income Tax Appellate Tribunal. ICRA will continue to monitor the development on this front.

The Positive outlook reflects ICRA's expectation of the Deepak Group continuing to benefit from the healthy demand for its products and the integrated nature of its operations. ICRA expects the credit profile of the Group to improve from FY2027 as the capex cycle is set to be completed in the next one year and the profitability of PCL will also improve.

Key rating drivers and their description

Credit strengths

Strong market position in domestic industrial chemical business - The Deepak Group has a strong market position in the existing chemical businesses of TAN, nitric acid and IPA. The Group is one of the leading players of TAN in the domestic market, supported by the superior product quality of low-density ammonium nitrate (LDAN), which commands a premium over AN-melt manufactured by domestic players and imported fertiliser-grade AN. The Group is one of the leading manufacturers of IPA and concentrated nitric acid (CNA) in the domestic market. It is also expanding its capacities in TAN, which would allow it to maintain its dominant position over a longer term. The backward integration to produce ammonia and a moderation in the production cost from FY2027 is expected to improve the competitiveness of these products further.

Diversified portfolio with shift towards value-added products - DFPCL has a broad-based product mix, derived from two streams using natural gas or ammonia as the primary feedstock. The company's ability to suitably modify its product mix in response to the changes in market conditions partially mitigates the risks associated with cyclicality. The company has also been increasing its portfolio of value-added products in the chemical and fertiliser segments and the trend is expected to continue in the near to medium term.

Favourable demand prospect s- The domestic demand outlook for the company's key products such as TAN, IPA and nitric acid remains healthy. The demand for TAN will be driven by the coal mining and infrastructure sectors, while the demand for nitric acid would be supported by the planned capacity addition in the downstream segments. The IPA market is expected to maintain a healthy growth, led by the growing end-user industry, namely the pharma sector, apart from dyes and paints. The demand for the fertiliser segment is also expected to stay healthy as the country remains dependent on imports to meet the phosphatic fertiliser requirements. Additionally, the recent policy changes which allow companies to earn up to 10% of the profit before tax margin will allow the entity flexibility in setting the retail prices for fertilisers. The same should bode well for the segment as it will allow the company to pass on the input price impact to the end consumers.

Healthy financial flexibility - The Group has a healthy financial flexibility, reflected in its fund-raising and refinancing ability. In the past, it had raised funds through rights issues and QIP which was subscribed by marquee domestic and international financial institutional investors, and from multilateral agencies. Further, since January 2024, the pledge on promoter shareholding has been entirely released and, hence, there is no encumbrance of any kind on promoter holding.

Credit challenges

Profitability vulnerable to cyclicality in input prices - The company's profitability remains exposed to the cyclicality in input prices and the ability to pass on the same to the customers. Further, any availability issues of key raw materials may have an adverse impact on the company's operations. However, the risk has been partly mitigated by supplier diversification. The availability risk will be mitigated further by the backward integration in ammonia and the firm gas supply tie-ups.

Exposure to regulatory risks - The fertiliser business is exposed to agro-climatic risk and operates in a regulated environment. The selling prices of the products remain dependent on the subsidy allocated by the GoI to the various nutrients. DFPCL, thus, remains exposed to any sharp variation in the subsidy levels announced under the Nutrient-Based Subsidy (NBS) scheme and the timeliness of the subsidy payout by the GoI, apart from any other regulatory intervention on the product prices. ICRA also notes the regulatory overhang over additional claims by GAIL towards domestic gas supply. The matter is sub-judice.

Large debt-funded capex – The Deepak Group is undertaking a Rs. 4,500-crore capex programme (~ Rs. 1,300 crore incurred till December 2024) for setting up a 376-KTPA TAN project at Gopalpur, Odisha (capital outlay of nearly Rs. 2,200 crore), and a nitric acid plant at Dahej, Gujarat, with a capital outlay of nearly Rs. 1,985 crore. A debt of Rs. 1,541 crore has been tied up for the TAN project. For the nitric acid project, the company has bridge loans of Rs. 700 crore and it is in advanced stages of tying up the debt. Given the sizeable capex, the company will remain exposed to project execution risk and the timely completion of the projects within the expected capital outlay will remain a key monitorable. However, comfort can be drawn from the fact that the capex is in the existing line of business and the Group has a track record of efficiently running the operations of such plants.

Liquidity position: Adequate

The liquidity position of the Deepak Group at a consolidated level remains adequate, supported by expectations of robust cash flow from operations in the range of Rs. 1,000-1,200 crore per annum for FY2025 and FY2026, a healthy cushion in the working capital limits for both DFPCL and MAL and ~Rs. 497 crore of cash balances as on December 31, 2024. The company had tied up external debt for the TAN project and is in advance stages of tying up term debt for the nitric acid project (in the interim, the company has availed a bridge loan). Thus, the debt funding for the projects is largely in place. The cash flow from operations and the debt tie-ups will be adequate to fund the ongoing capex plans and to meet the term debt repayments for the Group, going forward.

Rating sensitivities

Positive factors – A healthy improvement in cash accruals on a sustained basis, aided by the timely completion of new projects within the expected capital outlay, would help improve the credit metrics and favour an upgrade. A specific credit metric for upgrade would be net debt/OPBDITA of less than 1.5 times, on a sustained basis.

Negative factors – A decline in profitability, and/or a stretch in the working capital position of the existing operations, or any material time and cost overruns in the capex projects, or any new large debt-funded capex might result in a sustained deterioration of the debt metrics and trigger a downgrade. A specific credit metric for downgrade would be net debt/OPBDITA of more than 2.5 times, on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals Fertilizers
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of Deepak Fertilisers & Petrochemicals Corporation Limited with its subsidiaries, Mahadhan AgriTech Limited and Deepak Mining Solutions Limited, as they are an integral part of DFPCL's operations. ICRA has considered the consolidated financials of Deepak Fertilisers & Petrochemicals Corporation Limited. As on December 31, 2024, the company had six subsidiaries, three step-down subsidiaries and one JV that are enlisted in Annexure II

About the company

MAL is a wholly-owned subsidiary of DFPCL. MAL is engaged in the manufacturing of fertilisers, which include ammonium nitro phosphate (ANP), bentonite sulphur and NPK fertilisers. Its manufacturing facilities are at Taloja and Panipat. At present, the company has a capacity to manufacture 300 KTPA of ANP, 800 KTPA of various NPK grades and 57 KTPA of bentonite sulphur. The company focuses on western India for the supply of its fertilisers, while bensulf is supplied to the northern market. In FY2025, through a scheme of arrangement and demerger of Mahadhan AgriTech Limited, the TAN business was demerged and it's now housed under Deepak Mining Solutions Limited, a wholly-owned subsidiary of Deepak Fertilisers and Petrochemicals Corporation Limited.

About the parent (DFPCL)

DFPCL was incorporated in 1979. The Group is involved in the manufacturing of nitro-phosphate (NP), nitrogen-phosphorous-potassium (NPK) and bentonite sulphur fertilisers, and industrial chemicals such as technical ammonium nitrate (TAN), methanol, nitric acid and iso-propyl alcohol (IPA). The manufacturing facilities are at Taloja, Dahej, Srikakulam and Panipat. It also owns a commercial mall in Pune.

DFPCL's promoters hold a 45.46% stake in the company with the rest being held by public and institutional investors. DFPCL currently houses the industrial chemical business, which includes the production and sale of iso-propyl alcohol and nitric acid. The company is also setting up a nitric acid capacity at its Dahej facility. DFPCL owns a 99.99% stake in Mahadhan AgriTech Limited (MAL) and Deepak Mining Solutions Limited (DMSL). MAL houses the crop nutrition business (CNB) of the Group and manufactures and sells various grades of phosphatic fertilisers and water soluble fertilisers. The technical ammonium nitrate (TAN) business is under DMSL, which also holds 99.99% ownership in Performance Chemiserve Limited (PCL) that runs an ammonia manufacturing facility for the Group.

Key financial indicators (audited)

DFPCL – Consolidated	FY2023	FY2024	9M FY2025*
Operating income	11301	8676	7607
PAT	1221	457	667
OPBDIT/OI	19.7%	15.1%	19.0%
PAT/OI	10.8%	5.3%	8.8%
Total outside liabilities/Tangible net worth (times)	1.2	1.1	-
Total debt/OPBDIT (times)	1.7	3.2	-
Interest coverage (times)	11.5	3.2	4.6

*Source: Company, ICRA Research; * Unaudited; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

MAL– Standalone	FY2023	FY2024	H1 FY2025
Operating income	5392.3	4159.2	2599.8
PAT	200.8	-171.0	21.4
OPBDIT/OI	10.7%	1.8%	6.6%
PAT/OI	3.7%	-4.1%	0.8%
Total outside liabilities/Tangible net worth (times)	1.9	2.0	2.2
Total debt/OPBDIT (times)	2.1	24.7	4.2
Interest coverage (times)	3.4	0.3	1.5

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	27-Feb-25	Date	Rating	Date	Rating	Date	Rating
Long term - Term loan – Fund-based	Long term	2247	[ICRA]AA- (Positive)	29-Feb-24	[ICRA]AA- (Stable)	29-Jul-22	[ICRA]AA- (Stable)	14-Jun-21	[ICRA]A+ (Stable)
				-	-	6-Dec-22	[ICRA]AA- (Stable)	-	-
Short term – Others – Non-fund based	Short term	3550	[ICRA]A1+	29-Feb-24	[ICRA]A1+	29-Jul-22	[ICRA]A1+	14-Jun-21	[ICRA]A1+
				-	-	6-Dec-22	[ICRA]A1+	-	-
Long term - Cash credit – Fund-based	Long term	700	[ICRA]AA- (Positive)	29-Feb-24	[ICRA]AA- (Stable)	29-Jul-22	[ICRA]AA- (Stable)	14-Jun-21	[ICRA]A+ (Stable)
				-	-	6-Dec-22	[ICRA]AA- (Stable)	-	-
Long term/Short term – Unallocated - Unallocated	Long term	3	[ICRA]AA- (Positive)	29-Feb-24	[ICRA]AA- (Stable)/[ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based - Term loan	Simple
Long term – Fund-based - Cash credit	Simple
Short term – Non-fund based limits	Very Simple
Unallocated limits	Not Applicable

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	Fund-based: Term loan I	FY2023	NA	FY2028	120.00	[ICRA]AA- (Positive)
NA	Fund-based: Term loan II	FY2019	NA	FY2027	207.50	[ICRA]AA- (Positive)
NA	Fund-based: Term loan III	FY2022	NA	FY2028	378.50	[ICRA]AA- (Positive)
NA	Fund-based: Term loan IV	FY2023	NA	FY2037	1,541.00	[ICRA]AA- (Positive)
NA	Fund-based: Cash credit	NA	NA	NA	700.00	[ICRA]AA- (Positive)
NA	Non-fund based limits	NA	NA	NA	3550.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	3.00	[ICRA]AA- (Positive)/ [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	Ownership	Consolidation approach
Mahadhan AgriTech Limited (erstwhile known as Smartchem Technologies Limited)	100.0%	Full Consolidation
Deepak Nitrochem Pty Limited	100.0%	Full Consolidation
Deepak Mining Solutions Limited (DMSL)	100.0%	Full Consolidation
SCM Fertichem Limited	100.0%	Full Consolidation
Ishanya Realty Corporation Limited	100.0%	Full Consolidation
Ishanya Brand Services Limited	100.0%	Full Consolidation
Yerrowda Investments Limited	85.0%	Equity Method
Performance Chemiserve Limited [Subsidiary of DMSL]	100.0%	Full Consolidation
Platinum Blasting Services Pty Limited (PBS) [Subsidiary of DMSL]	85.0%	Full Consolidation
Australian Explosives Pty Limited (AME) [Subsidiary of PBS]	100.0%	Full Consolidation

Source: Company

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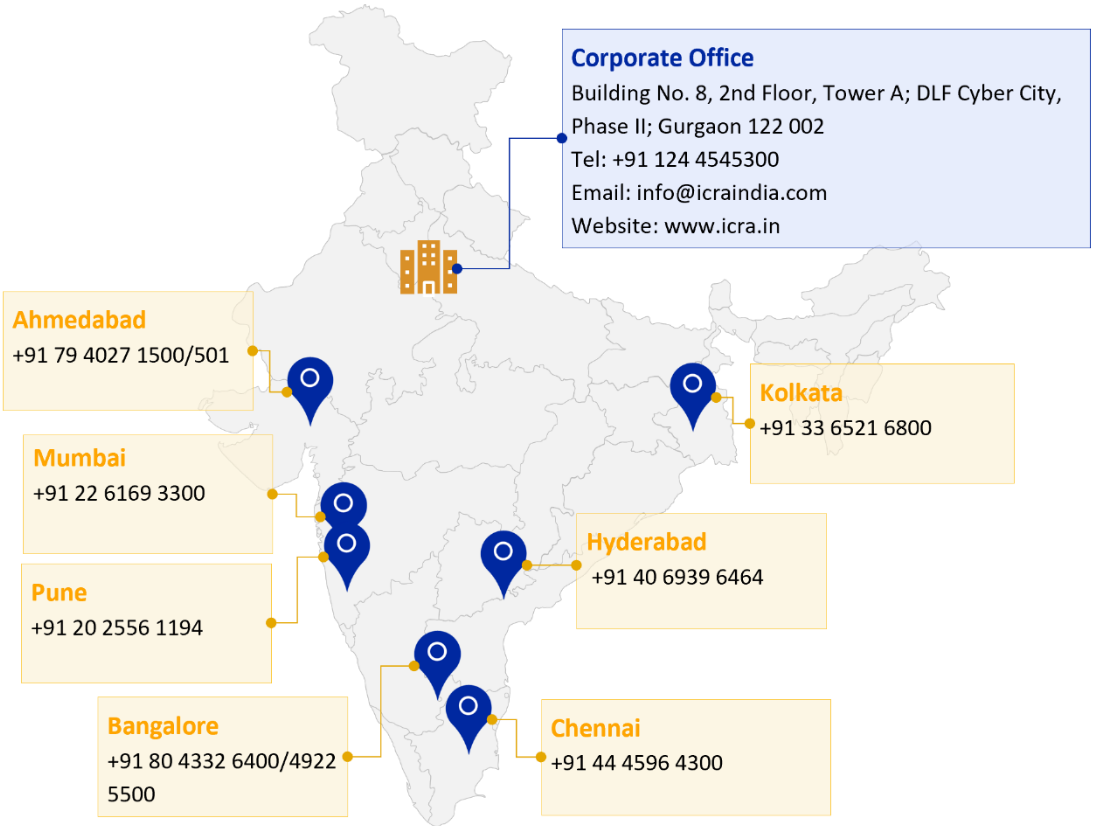

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