

## Chambal Fertilisers & Chemicals Limited

November 19, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	3000.00	3000.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>3000.00</b>	<b>3000.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 3000.00 crore commercial paper programme of Chambal Fertilisers & Chemicals Limited (CFCL).

### Rationale

The assigned rating takes into account the favourable demand prospects for urea in India as the demand far outstrips domestic supply, established position of CFCL as the largest private urea manufacturer in the domestic industry, healthy operating performance of the plants characterised by healthy production and energy efficiency levels and expected timely completion of the urea brownfield expansion project within the envisaged costs. The rating also factors in the stable net profit and cash generation of CFCL as indicated by a net profit of Rs. 476.5 crore in FY2018 as against Rs. 434.4 crore in FY2017 driven by healthy profitability of both the trading and urea manufacturing operations. Urea operations witnessed healthy capacity utilisation and energy savings during the year which aided profitability. The interest coverage for CFCL improved to 5.7 times in FY2018 from 3.1 times in FY2017 owing to significant lowering of the interest charges during FY2018 driven by lower working capital borrowings and significant decline in the borrowing rates for the company. The gearing of the company however has increased to 1.9 times at the end of FY2018 as against 1.6 times at the end of FY2017 while Total Debt/OPBDITA has increased to 7.2 times at the end of FY2018 as against 5.5 times at the end of FY2017, as the company availed long term debt for execution of the brownfield urea expansion during the year. Going forward as well, ICRA expects the company's core margins to remain healthy due to regulated returns and efficient operations.

The rating takes into account the vulnerability of the performance of CFCL to agro-climatic conditions, regulatory risks, and delay in subsidy receipts from GoI which result in high interest charges to fund the working capital borrowings and impact profitability for CFCL. The rating also factors in the large debt funded capex being undertaken by company for brownfield expansion of its urea plant. The project entails total capex of \$900 million (~Rs. 6000 crore) funded in a debt-equity ratio of 3.5:1. As a result, the leverage (Total Debt/Operating Profit) is expected to deteriorate to ~ 8x-9x times by end of FY2019. However, it should moderate to around 5x-6x times once the production from new capacity starts contributing materially in operating profit from FY2020 and will moderate further as the debt is repaid. The project execution risk is however significantly lower now as the project is expected to be commissioned towards the end of FY2019. Delay in subsidy levels will continue to keep the working capital borrowings elevated, which will keep the debt metrics subdued for the company in near to medium term.

## Key rating drivers

### Credit strengths

**Established position of CFCL in the domestic fertiliser industry:** CFCL is the largest private sector urea manufacturer with 1.72 MMTPA of installed capacity. CFCL has ~7% market share in urea segment and with a growing trading portfolio, the company has cemented its position as one of the leading players of the fertiliser sector with total fertiliser volume sales of ~3.3 MMT (including urea and non-urea fertilisers). Strong marketing network comprising of nearly 1700 dealers enables CFCL to reach a wide farmer base and reduces the marketing risk for the trading segment as well. With commissioning of the Gadepan-III project, CFCL will be the third largest urea manufacturer in India with a total capacity of ~3.1MMTPA.

**Favourable demand-supply scenario of urea in India due to price differential with non-urea fertilisers:** Post implementation of the Nutrient Based Subsidy (NBS) 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 lower price. The total domestic production in FY2018 was around 24.1 MMT, as against domestic demand of ~30.3 MMT which resulted in significant dependence on imports to meet the shortfall. Thus, the demand risk for urea remains low.

**Healthy energy efficiency and capacity utilisation levels of the urea units; stable cash generation from urea:** CFCL's Gadepan-I and Gadepan-II are some of the most energy efficient plants of the country and continue to have energy consumption well below their pre-set norms under NUP-2015. The plants have been able to achieve healthy capacity utilisation producing beyond re-assessed capacity for the past two years owing to efficient operations, favourable regulatory policies implemented by Gol i.e. gas pooling implemented in July 2015 and increase in IPP linked realisation for production beyond RAC from 85% of IPP to IPP + incidental charges. CFCL's plants have been able to maintain energy consumption better than pre-set norms under NUP-2015, providing healthy contribution to operating profits. Due to the regulated nature of urea business, the urea operations provide stable cash flows while trading segment provides support to profitability. However, trading segment remains exposed to volatility in foreign exchange and international commodity prices.

**High financial flexibility on account of large bank limits and standing among investors:** CFCL exhibits high financial flexibility in terms of its ability to raise funds at highly competitive rates in a short period of time and large unutilised bank limits.

### Credit challenges

**Vulnerability of profitability of the fertiliser sector to regulatory policies and agro-climatic conditions:** Profitability of the fertiliser sector remains vulnerable to agro climatic conditions as a major part of agriculture is still dependent on monsoon. Profitability of the sector also remains vulnerable to the regulatory policies of Gol as has been witnessed in tightening of energy norms under NUP-2015, reduction in NBS rates for non-urea fertilisers along with the Gol intervention in pricing of the same during FY2017.

**Delay in subsidy receipts impact profitability and cash flows:** Delay in receipt of subsidy from Gol has resulted in high working capital borrowings to fund cash flow mismatches. Large working capital borrowings also result in high interest charges which have kept profitability subdued. The release of subsidy under the Direct Benefit Transfer (DBT) scheme for the fertiliser sector has also been facing implementation issues which has resulted in extension of the working capital cycle for the company resulting in higher working capital borrowings.

**Large debt funded capex being undertaken; risks moderated by Gol's intent to be self-sufficient:** CFCL is undertaking a brownfield expansion at its existing urea facility at Gadepan with new capacity of 1.34 MMTPA being added. The project entails significant debt funding of around \$700 million with total capital outlay of \$900 million. CFCL's management bandwidth, already existing infrastructure at its Gadepan plants and fixed price nature of the contract with the EPC contractor along with provision for liquidated damages in case of delays are expected to mitigate the project execution risks. The company has spent around Rs. 4,720 crore on the project by the end of September 2018 partially funded through debt of Rs. 3,869 crore and remaining through internal accruals. The project execution risk is however significantly lower now as the project is expected to be commissioned towards the end of FY2019. The project may be exposed to off-take risk owing to omission of the guaranteed buyback clause from NIP-2012. However, Gol's intent to achieve self-sufficiency in urea production and current large-scale imports partially mitigates the off-take risk.

**Low international urea prices could impact profitability; favourable policy measures by DoF regarding production beyond the RAC to largely protect profitability:** International urea prices have been on an uptrend in recent months owing to rising energy costs and uncertainty over exports from Iran. However, in the medium-term international urea prices are expected to remain subdued owing to large capacity additions taking place globally with demand growth remaining at around 2% p.a. While CFCL's production has remained competitive against urea imports due to high energy efficiency, in case of weak urea prices and rising natural gas prices the contribution from production beyond RAC may get impacted. In such a scenario actions of DoF, given the autonomy by the Gol, to protect the domestic urea production will be imperative.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Fertiliser sector](#)

### **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 two urea manufacturing units at Gadepan (Kota, Rajasthan), both based on natural gas feedstock. The total installed capacity of both units is 1.73 million metric tonnes per annum (MMTPA); however, the company has an actual production capacity of ~2 MMTPA post the partial de-bottlenecking undertaken in CY2009. CFCL is India's largest private sector manufacturer of urea. The plants are being supplied 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. The company also commissioned its own SSP plant in Gadepan in FY2013 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 subsidiaries in the software and power business. CFCL exited its shipping business in H1 FY2018 and is a pure play fertiliser company.

## Key financial indicators (audited)

	FY 2017	FY2018
Operating Income (Rs. crore)	7418.2	7471.5
PAT (Rs. crore)	434.4	476.5
OPBDIT/ OI (%)	10.2%	11.6%
RoCE (%)	14.7%	17.9%
Total Debt/ TNW (times)	1.6	1.9
Total Debt/ OPBDIT (times)	5.5	6.5
Interest coverage (times)	3.1	5.7

\* Source: ICRA estimates; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress)

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				November 2018	June 2018	May 2018	Oct 2017	Oct 2016	Oct 2015
Commercial Paper	Short Term	3000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper	-	-	7-365 days	3000.00	[ICRA]A1+

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