

March 12, 2021

## Indian Farmers Fertiliser Cooperative Limited (IFFCO): Rating reaffirmed; Outlook revised to Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1,389.00	1,389.00	[ICRA]AA; re-affirmed; Outlook revised to Positive from Stable
Long term fund based-CC limit	5,500.00	5,500.00	[ICRA]AA; re-affirmed; Outlook revised to Positive from Stable
Short term non fund based	5,350.00	5,350.00	[ICRA]A1+; reaffirmed
Short term-fund based	15,605.00	15,605.00	[ICRA]A1+; reaffirmed
Short Term-Unallocated	156.00	156.00	[ICRA]A1+; reaffirmed
Commercial Paper Programme	156.00	156.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>28,156.00</b>	<b>28,156.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The positive outlook on the ratings of IFFCO reflects ICRA's expectation of the significant decline in the working capital debt of the society post the receipt of the additional subsidy under the Atma Nirbhar Bharat package 3.0 announced in November 2020 leading to significant improvement in the debt metrics. As per the Union budget for FY2022, the revised subsidy budget for the fertiliser subsidy stands at ~Rs. 133,947 crore for FY2021 which will lead to clearance of the subsidy backlog for the incumbents. IFFCO expects to receive around Rs. 10,000 crore under the Atma Nirbhar Package out of which Rs. 8500 crore has already been received by the end of February 2021 and remaining Rs. 1500 crore is expected to be received before the end of FY2021. With the receipt of the subsidy, IFFCO's working capital borrowings and the associated interest costs will come down substantially leading to improvement in the cash flow generation and credit metrics. Additionally, the society has received Rs. 800 crore in the month of February 2021 for the revised fixed costs under Modified New Pricing Scheme-III (Modified NPS-III) leading to further improvement in the credit profile of the society. The payout of additional fixed costs going forward will lead to lower under-recoveries on account of the fixed costs and lead to improvement in the profitability of the urea segment.

The ratings continue to factor in the leadership position of the society in the Indian fertiliser industry reflected by the market share of 26% in urea segment and 22% in the Phosphatic (P&K) fertiliser segment in FY2020 and the largest fertiliser manufacturing setup in the country in both urea and P&K fertiliser segment, highly efficient operations in both urea and P&K segment, large investment portfolio yielding large dividend and interest income supporting profitability besides which several investments made ensure raw material security, large marketing setup and high financial flexibility with ability to raise working capital borrowings at highly competitive rates. Over the years, the society has built a large investment portfolio with Oman-India Fertiliser Company (OMIFCO with 25% ownership), Jordan India Fertiliser Company (JIFCO with 27% ownership) and IFFCO-Tokio General Insurance Limited (51% ownership) being the major investments. The society receives healthy dividends from its investments particularly OMIFCO, where the dividends are expected to remain higher than the past levels from FY2021 onwards. The society also has a large portfolio of interest bearing bonds which provide healthy interest income. Some of the investments e.g. JIFCO and ICS provide raw material security as the society has entered into long term offtake agreements with these entities to supply rock phosphate and phosphoric acid respectively. The ratings also factor in the large marketing network of the society with nearly 35,000 farmer cooperatives being part of IFFCO which provides pan-India access to farmers.

The ratings of the society are constrained by the vulnerability of the profitability to agro-climatic risks, regulatory policies governing the fertiliser sector and the moderate capitalisation and coverage indicators given the large working capital borrowings to fund the delays in the subsidy receivables from the GoI.

## Key rating drivers and their description

### Credit strengths

**Largest player in the domestic fertiliser industry with 26% market share in urea and 22% in DAP/NPK segment:** IFFCO is the largest domestic manufacturer of urea and P&K fertilisers with nearly 26% market share in urea (including imported urea) and 22% market share in the P&K fertiliser segment as per FY2020 figures. The company has the largest urea manufacturing capacity in India with 4.24 MMT capacity spread over 5 plants at Kalol, Phulpur and Aonla and the largest P&K fertilizer manufacturing capacity in India with ~4.3 MMT capacity spread over two plants at Kandla and Paradeep.

**Healthy operational efficiency across urea and DAP/NPK plants:** The plants of the society have maintained high operational efficiency with healthy capacity utilisation levels for both urea and P&K fertilisers and energy efficient operations in the urea plants. All the urea plants have their energy consumption well below their pre-set norms under NUP-2015 which results in large energy savings and supports the operating profitability of the society. Highly energy efficient plants keep urea production against imports competitive aiding production beyond re-assessed capacity. Among the P&K plants, the Kandla plant remains dependent on imported phosphoric acid while Paradeep plant has a phosphoric acid manufacturing plant, which results in backward integration and higher operating margins for the society. With stable phosphoric acid prices, the contribution margin from DAP/NPK sales is expected to remain stable and thus the profitability from this segment should remain healthy in the current fiscal as well.

**Large portfolio of investments in profitable ventures providing dividends and interest income:** IFFCO has a sizeable portfolio of investments, which has been built-up over the years. The book value of investments was around Rs. 2214.4 crore including strategic investments in various JVs/Subsidiaries and Rs. 1729.6 crore of investments in bonds. The main investments include 25% ownership in Oman India Fertiliser Company (OMIFCO), 27% ownership in Jordan India Fertiliser company (JIFCO) and 51% ownership in IFFCO Tokio General Insurance Limited. The society derives significant income from these investments e.g. OMIFCO paid dividend of ~Rs. 97 crore in FY2020 and Rs. 120 crore in FY2019. The society also receives dividends to the tune of Rs. 18-20 crore every year from its subsidiaries. The market value of the investments is however, significantly higher than book value. These assets add significant financial flexibility to the society as these assets can be monetised if the need arises. The society also has a large portfolio of tax free and redeemable bonds from which it derives healthy interest income, thus aiding cash generation.

**Well entrenched marketing network through cooperatives aiding farmer reach and marketing ability of the society:** Nearly 35,000 cooperatives hold ownership in the society and the society markets its products through these cooperatives. The society also has a good brand recall amongst farmers as it carries out many farmer engagement activities and provides other value-added services through its subsidiaries like Kissan Sanchar etc. With a well-entrenched network, IFFCO has been able to garner a healthy market share across various states of India and continues to be leading fertiliser company in the country.

**High financial flexibility characterised by ability to raise large short-term borrowings at competitive rates:** The society has high financial flexibility with ability to raise funds from banking system at very short notice and at competitive rates. Low long-term liabilities vis-à-vis networth and a large investment portfolio, large cash balances and stable dividend income from OMIFCO add to its financial flexibility.

### Credit challenges

**Vulnerability of profitability to regulatory policies of fertiliser sector and agro-climatic risks:** The profitability of the sector remains vulnerable to the regulatory policies governing the sector. The under-budgeting of subsidies in the past have been a drain on the profitability of the sector although the same have been cleared in FY2021. However, issues like lack of timely revision in the fixed costs for urea units and inverted duty structure for the phosphatic segments continue to moderate

industry's performance. The performance of the sector also depends on the performance of monsoon as it directly impacts the performance of the agriculture sector, the end user of fertiliser.

**Moderate coverage and capitalisation indicators given the working capital-intensive nature of operations:** The capitalisation and coverage indicators of the society remain moderate owing to regulated returns and working capital intensive nature of operations. The credit metrics are expected to improve going forward given the receipt of additional subsidy under the Atma Nirbhar 3.0 package.

### Liquidity position: Strong

IFFCO's liquidity is supported by nearly Rs. 3519 crore of cash and liquid investments on the books of the society at the end of 9M FY2021 and average bank limit utilisation of 51% for last 6 months ending January 2021. With expected cash accruals of ~Rs. 1500-1800 crore per annum and a portfolio of interest bearing bonds of ~Rs. 1700 crore and no major capex plans in the near term, IFFCO's liquidity position remains strong. The liquidity position is also supported by the ability of the company to raise working capital debt at highly competitive rates.

### Rating sensitivities

**Positive factors** – Substantial improvement in debt metrics or monetisation of stake in JVs/subsidiaries could be positive for the ratings. Additionally, reduction in receivables days after full disbursement of the additional subsidy leading to sustained reduction in working capital cycle could also be positive for the ratings.

**Negative factors-** a) Material cash outflow due to large acquisition/capex resulting in deterioration in the credit metrics b) Material deterioration in the working capital cycle driven by delay in the subsidy receivables from GoI leading to subsidy receivables remaining above 150 days on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Fertiliser sector</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the society.

### About the company

Indian Farmers Fertiliser Cooperative Limited (IFFCO) was setup in November 1967 and is now one of the largest cooperative bodies and is completely owned by nearly 32,300 cooperative societies across India. The society is engaged in manufacturing, import and marketing of fertilisers primarily urea, DAP and complex fertilisers. The society also sells other products like water-soluble fertilisers, bentonite sulphur, bio-fertilisers, plant growth promoters etc. However, the contribution of these products to revenue and profitability remains small compared to urea and P&K fertilisers. The society has 5 manufacturing facilities for urea at Kalol, Phulpur (two trains P-1 & P-2) and Aonla (two trains A-1 & A-2) with a cumulative capacity of 4.24MTPA which makes it the largest urea manufacturer in India with a capacity share of nearly 22%. The company is also engaged in manufacturing of DAP and complex fertilisers and has two plants at Kandla and Paradeep with cumulative capacity of 4.3 MTPA. The company had nearly 26% market share in urea segment including imported urea and 22% market share in the P&K fertiliser segment in FY2020. The company derived nearly 36% of its revenues from manufactured urea, 44% from the manufactured phosphatic fertilisers and remaining 20% from trading of urea, phosphatic fertilisers and indigenous seeds and chemicals in FY2020. In 2019, IFFCO retained its No 1 position in Fertilisers and Agro-Chemicals in Fortune 500 companies in India, apart from securing the 58th position in the list of Fortune 500 companies in India. Further, in 2020, the Managing Director & CEO of the society "Dr U S Awasthi" was ranked 40 in the top 50 influential leaders in India by Fame India magazine.

For the year 2019, IFFCO was ranked first among three hundred cooperatives of the world by Cooperative Monitor 2020 on the basis of turnover per capita over GDP.

IFFCO has a sizeable investment portfolio of Rs. 2214.4 crore (end of FY2020) with investments in companies located in India as well as abroad. The investments include IFFCO-Tokio General insurance, Oman India fertiliser company SAOC (OMIFCO), Jordan India fertiliser Company LLC(JIFCO) etc. The company also had a sizeable portfolio of tax-free bonds/NCDs to the tune of Rs. 1729.6 crore and cash and bank balances of Rs. 1961.9 crore at the end of FY2020.

#### Key financial indicators (audited, 9M FY2021 numbers are un-audited)

IFFCO Standalone	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	27,851.7	29,412.4	21,298.2
PAT (Rs. crore)	841.6	1,004.6	1,242.4
OPBDIT/OI (%)	7.3%	8.2%	10.0%
PAT/OI (%)	3.0%	3.4%	5.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.8	1.4
Total Debt/OPBDIT (times)	7.1	6.2	4.4
Interest Coverage (times)	2.0	2.2	3.7

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*Un-audited*  
Source: IFFCO, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2021)						Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in			Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 12, 2021	Sep 11, 2020	Aug 10, 2020			
1	Term loans	Long term	1,389.00	1069.00	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
2	Long term fund based-CC limit	Long term	5,500.00	-	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
3	Short term non fund based	Short term	5,350.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-
4	Short term-fund based	Short term	15,605.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-
5	Short Term-Unallocated	Short term	156.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-
6	Commercial Paper Programme	Short term	156.00	-	[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 [click here](#)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term loans	March 2017	NA	March 2022	750.0	[ICRA]AA (Positive)
-	Term Loans	March 2020	NA	March 2025	600.0	[ICRA]AA (Positive)
-	Proposed Term loan	-	-	-	39.0	[ICRA]AA (Positive)
-	Long term fund based-CC limit	-	-	-	5,500.0	[ICRA]AA (Positive)
-	Short Term-Unallocated	-	-	-	156.0	[ICRA]A1+
-	Short term non fund based	-	-	-	5,350.0	[ICRA]A1+
-	Short term-fund based	-	-	-	15,605.0	[ICRA]A1+
-	Commercial Paper programme	Unplaced			156.0	[ICRA]A1+

Source: IFFCO

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	IFFCO's ownership	Consolidation Approach
NA	-	-

Source: IFFCO

## ANALYST CONTACTS

**Sabyasachi Majumdar**

+91 124 4545 304

[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Prashant Vasisht**

+91 124 4545 322

[prashant.vasisht@icraindia.com](mailto:prashant.vasisht@icraindia.com)

**Ankit Jain**

+91 124 4545 865

[ankit.jain@icraindia.com](mailto:ankit.jain@icraindia.com)

**Varun Gogia**

+91 124 4545 373

[varun.gogia@icraindia.com](mailto:varun.gogia@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



### Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.