July 29, 2022

Indian Potash Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Term Loans	225.50	225.50	[ICRA]AA- (Stable); reaffirmed
Long-term: Fund Based Limits	1,500.00	1,500.00	[ICRA]AA- (Stable); reaffirmed
Short-term: Non Fund-Based Facilities	6,540.00	6,540.00	[ICRA]A1+; reaffirmed
Short-term: Commercial Paper	800.00	800.00	[ICRA]A1+; reaffirmed
Long-term/ Short-term: Fund/Non Fund-based Limits	1,815.00	1,815.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Long-term/ Short-term: Unallocated Limits	252.50	252.50	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	11,133.00	11,133.00	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in the established market position of Indian Potash Limited (IPL/the company) in the trading of three major fertilizers, muriate of potash (MOP), di-ammonium phosphate (DAP) and urea. IPL's revenues improved in FY2022 despite volume degrowth owing to higher realisations. Although the operating margins moderated in FY2022 due to the increase in fertiliser prices internationally, the absolute operating profits remained stable. The profitability of the fertiliser segment was partly offset by subdued profits from the sugar and other divisions. The company is undertaking a capex of Rs 250 crore (to be funded in debt-equity ratio of 3:1) to set up a distillery, which is expected to improve the performance of the sugar division.

The ratings factor in the strategic importance of IPL to the Government of India (GoI) as one of the largest importers of fertilisers, its favourable competitive position arising from its long-standing supplier relationships and a pan-India distribution network, and the scale and efficiency of its handling operations. The ratings favourably factor in the company's strong parentage, strategic importance to the GoI and its healthy financial flexibility with lenders, which allows it access to funds at competitive rates. The ratings also draw comfort from the favourable prospects for phosphatic and potassic (P&K) fertiliser imports, given the lack of self-sufficiency in India, besides the company's comfortable liquidity, characterised by large cash balances and investments.

The rating strengths are partially offset by the volatility inherent in the business, which is exposed to commodity and exchange rate fluctuations. This risk is mitigated to some extent by the demonstrated track record of the company in negotiating market cycles and managing currency risk. The ratings factor in the working capital intensive nature of operations and the resultant high working capital borrowings due to the sizeable receivables and inventory levels. However, the working capital intensity has witnessed some moderation in recent years (in FY2021 and FY2022), subsidy receivables has witnessed moderation on account of timely clearance by the GoI. Further, ICRA notes that the return indicators have been impacted by sizeable investments in the sugar sector and the acquisition of a 37% stake in Jordan Phosphate Mines Company (JPMC), in partnership with Indian Farmers Fertiliser Cooperative Ltd. (IFFCO, wherein IPL holds 27.38% stake). These investments provide diversification benefits and input security.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that IPL's credit profile will continue to benefit from its leading market position in trading DOP and MOP with an expected improvement in the performance of the other segments.

Credit strengths

Established market position in trading fertilisers in India – IPL derives a major portion of its revenues from MOP, where it is the market leader with about 64% market share in FY2022. IPL also has the second-largest market share in DAP in India. The company has one of the most extensive fertiliser distribution networks in the country, covering more than 90% of India's villages, which is a strength considering the regional nature and freight intensity of fertiliser distribution. The market leadership and scale have imparted benefits like volume discounts from suppliers and efficient handling costs.

Strong ownership profile and strategic importance in fertiliser sector – IPL's ownership is distributed among reputed cooperatives and public sector units with board representation from the Department of Fertilisers, GoI, and all its major shareholders. Moreover, IPL is a strategically important company for the GoI, being the largest fertiliser trader.

Favourable outlook for P&K fertiliser importers in India – Due to the nutrient deficiency in the soil and the large shortfall between current domestic production and consumption levels, the demand for P&K fertiliser imports is expected to increase, which would benefit traders like IPL. The traded volumes moderated in FY2022 owing to the high base of FY2021. The volumes are expected to remain healthy in the coming fiscals.

High financial flexibility owing to access to large funding lines and available cash balances – IPL enjoys large fund/non-fund-based limits with lenders and utilises the buyer's credit facilities at competitive rates to import fertilisers, thereby providing significant cost savings. The company normally has large cash balances and holds special fertiliser bonds issued by the GoI. These provide substantial financial flexibility to the company for managing its working capital.

Credit challenges

Profitability exposed to commodity price and currency volatility risks – IPL's profitability is exposed to commodity price fluctuations and sales discounts provided to dealers in times of high systemic inventories. Besides, the margins have fluctuated on the basis of currency rate movements as IPL does not possess any natural hedge against its imports. However, the company made forex gains in FY2022 (albeit lower than FY2021) which supported its profitability against the sizeable forex losses in FY2020 and FY2019. The sharp rupee depreciation will have an adverse impact on the company's profitability.

Working capital-intensive operations –IPL's working capital intensity has remained high as it receives subsidy payments with a time lag. Besides, the inventory levels are high on account of stocking for the upcoming season. The high working capital gap is funded through working capital limits and use of supplier credit. However, there has been some moderation in the working capital intensity in recent years due to the implementation of the direct benefit transfer (DBT) regime and adequate provision for subsidy by the GoI.

Relatively large investments in recent years restrict return indicators – Traditionally, IPL enjoyed healthy returns as the fertiliser trading operations were moderately profitable with a low asset base. Nevertheless, as a diversification initiative, the company ventured into cattle feed manufacturing, dairy product distribution and acquired six sugar mills in Uttar Pradesh. The company is undertaking a capex of Rs 250 crore (to be funded in debt-equity ratio of 3:1) to set up a distillery, which is expected to improve the performance of sugar division. Further, IPL had acquired a 27.38% stake in JPMC in FY2019, which ensures reliability in input supply. JPMC has paid dividends to IPL in the last three years. The improved performance of the investments on a sustained basis should improve the return indicators, going forward.

Liquidity position: Adequate

Although the company is expected to have a repayment obligation of about Rs. 28 crore in FY2022, and is also expected to incur a capex of ~Rs 250 crore in FY2023, which is expected to be partly debt funded, the liquidity is expected to remain adequate supported by healthy unencumbered cash balance and cash accruals. Further, the liquidity is supported by availability of unutilised working capital limits as IPL primarily relies on non-fund-based limits for its operations (average utilisation of ~56% in FY2022) as well as short-term loans, special banking arrangement and buyer's credit to fund its working capital requirement.

Rating sensitivities

Positive factors – IPL's rating could be upgraded if there is a significant improvement in its financial profile, aided by growth in revenues and margin improvement, or if there is a reduction in the working capital intensity on a sustained basis, strengthening its credit profile.

Negative factors – Negative pressure on IPL's ratings may arise if its financial profile weakens due to significant decline in scale or margins, or if there is significant build-up of subsidy receivables causing stretch in working capital intensity, leading to substantial increase in debt, or any larger than expected debt-funded capex leading to weakening of the credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IPL. As on March 31, 2022, the company has one subsidiary and an associate company, which are all enlisted in Annexure-2.

About the company

Indian Potash Limited (IPL) was incorporated as Indian Potash Supply Agency (IPSA) in 1955 for the import, handling, marketing and promotion of potash fertilisers. The company was initially promoted by private sector companies, such as EID Parry, Rallis India and Shaw Wallace. On the recommendations of the National Commission on Agriculture, the Government of India (GoI) expanded the equity base of the company with majority shareholding with cooperatives and public sector fertiliser companies in 1970. Thereafter, IPSA was converted into IPL. Currently, the co-operative and public sector companies own 70.21% and 20.55%, respectively, in IPL; with IFFCO being the largest shareholder with a 33.98% stake. The company is involved in the import and trading of muriate of potash (MOP), urea, di-ammonium phosphate (DAP), and sulphate of potash (SOP), besides indigenously produced fertilisers, such as single super phosphate (SSP) and other products like gypsum. The company's distribution network reaches six lakh villages in India, out of a total of 6.5 lakh villages, enabling 90% coverage throughout the country. IPL has its own warehousing facility at all major ports and outsourced warehousing facilities throughout India.

IPL is also involved in the production of cattle feed and milk processing with a plant in Uttar Pradesh. The company has entered into an agreement with Mother Diary, a leading supplier of sachet milk in the National Capital Region (NCR) for its milk processing business. The company also operates six sugar mills in Uttar Pradesh with a capacity of 20,500 TCD. Five mills were bought in 2011 and one in November 2016. These other divisions generate ~10% to the overall revenues of the company but form a major part of its fixed asset base.

Key financial indicators

IPL Consolidated	FY2021	FY2022*
Operating income	16350.7	18553.9
PAT	453.7	300.2
OPBDIT/OI	5.2%	4.3%
PAT/OI	2.8%	1.6%
Total outside liabilities/Tangible net worth (times)	1.3	2.5
Total debt/OPBDIT (times)	3.3	7.0
Interest coverage (times)	5.6	6.8

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;*Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2019			
					Jul 29, 2022	Jul 13, 2021	Aug 10, 2020	Mar 22, 2019	Jan 11, 2019	Sep 07, 2018	May 23, 2018
1	Non Convertible Debentures	Long Term	-	-	-	-	-	Withdrawn	Provisional [ICRA]AA-(SO) (Stable)	Provisional [ICRA]AA-(SO) (Stable)	Provisional [ICRA]AA-(SO) (Stable)
2	Fund Based Limits	Long Term	1500.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Term Loans	Long Term	225.50	69.11	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-	-	-
4	Non Fund-Based Facilities	Short Term	6540.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated Limits	Short Term	-	-	-	-	-	[ICRA]A1+	-	-	-
6	Commercial Paper	Short term	800.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fund /Non Fund-based Limits	Long Term/Short Term	1815.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+	-	-	-	-
8	Unallocated Limits	Long Term/Short Term	252.50	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term: Term Loans	Simple
Long Term: Fund Based Limits	Simple
Short Term: Non Fund-Based Facilities	Simple
Short Term: Commercial Paper	Very Simple
Long-Term/Short-Term: Fund /Non Fund-based Limits	Simple
Long-Term/Short-Term: 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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term: Term Loans I	Aug 2018	NA	Aug 2021	97.50	[ICRA]AA- (Stable)
NA	Long Term: Term Loans II	Jan 2020	7.05%	Jun 2025	86.40	[ICRA]AA- (Stable)
NA	Long Term: Term Loans II	Jan 2020	7.55%	Jun 2025	41.60	[ICRA]AA- (Stable)
NA	Long Term: Fund Based Limits				1500.00	[ICRA]AA- (Stable)
NA	Short Term: Non Fund-Based Facilities				6540.00	[ICRA]A1+
Unplaced	Short Term: Commercial Paper				800.00	[ICRA]A1+
NA	Long-Term/Short-Term: Fund /Non Fund-based Limits				1815.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Long-Term/Short-Term: Unallocated Limits				252.50	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	IPL Ownership	Consolidation Approach
Indian Potash Limited	100.00% (rated entity)	Full Consolidation
IPL Sugars and Allied Industries Limited	100.00%	Full Consolidation
Jordan Phosphate Mines Company	27.38%	Equity Method

Source: IPL annual report FY2021

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