August 31, 2023

KRIBHCO Fertilizers Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**100.00**	**100.00**	

Instrument details are provided in Annexure-I

Rationale

For assigning the rating, ICRA has taken a consolidated view of Krishak Bharati Cooperative Society (KRIBHCO) and its subsidiary, KRIBHCO Fertilizers Limited (KFL – rated [ICRA]A1+), referred to as Group hereafter. The rating factors in the Group's established track record of nearly three decades, being the fourth-largest urea manufacturer and third-largest marketer. The rating also factors in the adequate contribution from the P&K fertiliser trading operations and the consistent and healthy dividend inflow from its joint venture - Oman India Fertilizer Company S.A.O.C. (OMIFCO). Though the dividend receipt from OMIFCO is likely to decline, it will continue to support the profitability, going forward.

The Group benefits from the ownership of cooperatives, which are engaged in the distribution of fertilisers, leading to an established pan-India market presence and reach to farmers. Despite the diversified ownership, the Group is professionally managed and has strong financial flexibility on account of the large net worth and strength of its investments. The financial flexibility is evident from the ability to raise funds at competitive rates for the Group and its subsidiaries. The Group benefits from access to urea from the Shahjahanpur plant of its subsidiary KFL, leading to a higher market share.

ICRA takes comfort from the fact that KRIBHCO is also marketing the urea manufactured by KFL. KFL's performance has also improved significantly, driven by better energy savings and expected reduction in freight costs post the setting up of the railway siding connecting the plant to the nearest rake point of the Indian Railways.

The rating also factors in the consistent support of the Government of India to the industry in terms of continued subsidy revisions and timely inflow of subsidy.

The Group's profitability, however, remains vulnerable to regulatory policies and agro-climatic conditions, while the cash flows are sensitive to the delays in subsidy receipts from the GoI, although the same have been timely since the last fiscal. While KFL's performance has remained comfortable, the urea segment of KRIBHCO has been reporting losses due to under-recovery of fixed costs and higher energy consumption than the stipulated norms in FY2023.

The contribution from the sale of P&K fertilisers in FY2023 remained stressed because of high product prices and inadequate subsidy plus retail price. As a result, the segment reported a loss of Rs. 641.5 crore at the PBIT level in FY2023 vis-à-vis a positive PBIT of Rs. 571.4 crore in FY2022. This loss was mainly due to reversing of the subsidy receivable for Q4 FY2023 on account of the retrospective downward revision of NBS rates and loss on inventory held at the end of FY2023 due to lower NBS rates announced for H1 FY2024.

Key rating drivers and their description

Credit strengths

Established position as manufacturer and marketer of urea; ownership by cooperatives aids marketing reach – KRIBHCO, along with its subsidiary KFL, is the fourth-largest urea manufacturer and third-largest urea marketer (including KFL and imported urea) in the country. The Society is owned by cooperatives, which are also engaged in the marketing of fertilisers. As a result, it derives significant synergy from its ownership, which improves its marketing reach to farmers.

Healthy operational efficiency; KRIBHCO plant's energy consumption more than normative norms, while KFL's plants are energy-efficient - The Society's urea plants have been operating at healthy capacity utilisation levels. The capacity utilisation levels have remained more than 100% (on the basis of the debottlenecked capacity of 2.12 MMTPA) over the last several years, resulting in healthy urea production. The energy consumption of KRIBHCO's Hazira plant was around 5.52 Gcal/MT in FY2023, slightly higher than the normative energy norm. KFL implemented energy saving projects during April-May 2021 and has achieved urea energy of 5.1963 Gcal/MT in FY2023, which is well below the present norm of GoI (i.e. 5.50 Gcal/MT).

Strong dividend inflow from OMIFCO supports cash generation - KRIBHCO has a 25% ownership in OMIFCO, which has been paying healthy dividends to the Society over the past few years, aiding profitability. The dividend receipt from OMIFCO increased significantly in FY2022 and FY2023 as OMIFCO started selling urea at market prices post the expiry of the supply agreement with the GoI in July 2020. In FY2024, the dividend from OMIFCO is expected to moderate, driven by declining international urea prices.

Strong financial flexibility - The Society displays strong financial flexibility owing to the availability of large unutilised bank limits and its ability to raise funds at highly competitive rates.

Credit challenges

Profitability of fertiliser sector vulnerable to regulatory policies and agro-climatic conditions - The profitability of the fertiliser sector remains vulnerable to the regulatory policies set by the GoI, such as revision in energy norms for urea units and infrequent revision in fixed costs for the units. Agro-climatic risks like a weak monsoon may also impact the profitability of the fertiliser sector as the industry has to offer higher discounts, given the stressed condition of the end users.

Moderation in operating profitability with lower energy savings and reduced fixed cost reimbursement by GoI - In FY2024, the profitability of the urea and the trading segments is expected to remain stressed because of muted energy savings and lower contribution from the trading of phosphatic fertilisers because of elevated international prices. However, this will be partially offset by the dividend received from OMIFCO.

Moderate financial risk profile of KFL – Subsidiary KRIBHCO Fertilizers Limited (KFL) has moderate debt coverage metrics even as its operational performance is on an improving trajectory. Its financial risk profile is expected to moderate, going forward, because of lower energy savings though reduced freight costs will support its profitability.

Liquidity position: Adequate

KRIBHCO's liquidity position is expected to remain adequate, going forward, with cash balances of Rs. 2,278.4 crore at the end of FY2023 owing to a steep rise in dividends from OMIFCO.

Rating sensitivities

Positive factors – NA

Negative factors – A material decline in profitability on a sustained basis could lead to a downgrade. The weakening of the credit profile due to higher-than-expected debt-funded capex, and/or increase in the receivable days beyond 150 days for a sustained period will put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Entities in the fertiliser sector Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of the KRIBHCO Group (as mentioned in Annexure-2), given the close business, financial and managerial linkages among the entities

Note (for analyst reference only):

About the company

KRIBHCO Fertilizers Limited (KFL)

KRIBHCO Fertilizers Limited (KFL) was incorporated on December 8, 2005, pursuant to a joint venture agreement between KRIBHCO and the Shyam Group to acquire the urea manufacturing facilities of Oswal Chemicals & Fertilizers Limited at Shahjahanpur (Uttar Pradesh) in a shareholding ratio of 60:40. The control of the plant was taken over with effect from January 18, 2006. The cost of acquisition, on a slump sale basis, was Rs. 1,908 crore, which was funded by a debt of Rs. 1,208 crore and an equity of Rs. 700 crore. KRIBHCO has guaranteed the total debt availed by the JV for the acquisition. Initially, KRIBHCO invested Rs. 420 crore to acquire a 60% stake in the JV, while the balance 40% was held by STL Fertilizers Private Limited (STLFL), an SPV of the Shyam Group. STLFL had an irrevocable 'put option' on KRIBHCO to exit KSFL any time up to March 31, 2009; it exercised the option for the sale of a 25% stake to KRIBHCO, which was accepted by the latter as per the terms and conditions of the JV agreement. KRIBHCO paid Rs. 215 crore for the 25% stake. Later, during FY2016 and FY2017, KRIBHCO further paid Rs. 194 crore to STLFL to acquire the balance 15% stake and consequently, KRIBHCO now holds a 100% stake in KSFL with an investment of Rs. 914 crore. The facility at Shahjahanpur is an integrated facility with a manufacturing capacity of 864,600 metric tonnes per annum (MTPA) of urea and 501,600 MTPA of ammonia.

Krishak Bharati Cooperative Limited (KRIBHCO)

Krishak Bharati Cooperative Limited (KRIBHCO) is a cooperative incorporated under the Multi State Cooperative Societies Act. It was set up in 1980 by the Government of India. It is owned by various co-operative societies across India. The Society manufactures urea, bio-fertilisers and seeds. KRIBHCO has a urea manufacturing plant at Hazira with a capacity of 1.73 MMTPA and a capacity of 2.12 MMTPA, post revamp. Besides urea, the cooperative also manufactures and trades in fertilisers, seeds and other agri-inputs (such as bio-fertilisers) and chemicals (such as surplus ammonia). KRIBHCO has ownership interests in various ventures - KFL (100% ownership) involved in urea production, KRIL (24% ownership) involved in multi-modal logistic business, OMIFCO (25% ownership in a JV involving IFFCO and OQ Ltd.) manufacturing urea, and GSEG (19.16% ownership) operating a 156-MW gas-based power plant in Surat, Gujarat.

Key financial indicators (audited)

KFL Standalone	FY2022	FY2023
Operating income	3198.7	5191.7
PAT	80.2	221.9
OPBDIT/OI	6.8%	7.0%
PAT/OI	2.5%	4.3%
Total outside liabilities/Tangible net worth (times)	3.7	1.8
Total debt/OPBDIT (times)	6.2	1.8
Interest coverage (times)	3.7	5.4

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

KRIBHCO Consolidated	FY2022	FY2023
Operating income	15180.1	29095.9
PAT	1254.6	790.7
OPBDIT/OI	4.7%	-0.8%
PAT/OI	8.3%	2.7%
Total outside liabilities/Tangible net worth (times)	1.7	1.6
Total debt/OPBDIT (times)	5.8	-25.5
Interest coverage (times)	5.1	-0.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					August 31, 2023	30 Aug 2022	24 Aug 2021	14 Sep 2020
1	**Commercial paper**	Short Term	100.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	**Non-convertible debenture**	Long term	-	-	-	-	-	**[ICRA]AA (CE) (Stable); reaffirmed and withdrawn**

Complexity level of the rated instruments

Instrument	Complexity Indicator
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
Unplaced	**Commercial paper**	NA	NA	NA	100.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Kribhco Ownership	Consolidation Approach
Krishak Bharati Cooperative Limited	100.00% (rated entity)	Full Consolidation
KRIBHCO Fertilizers Limited	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Manish Dwivedi
+91 124 4545 814
manish.dwivedi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches