December 14, 2023

Indian Farmers Fertiliser Cooperative Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loans	1,375.00	950.00	[ICRA]AA+ (Stable); reaffirmed
Long term – Fund based – Cash credit	5,500.00	5,500.00	[ICRA]AA+ (Stable); reaffirmed
Short term – Non-fund based	6,710.00	5,965.00	[ICRA]A1+; reaffirmed
Short term – Fund based	14,415.00	15,585.00	[ICRA]A1+; reaffirmed
Commercial paper programme	156.00	156.00	[ICRA]A1+; reaffirmed
Total	**28,156.00**	**28,156.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in the leadership position of Indian Farmers Fertiliser Cooperative Limited (IFFCO or the Society) in the Indian fertiliser sector in both the urea and the P&K fertiliser segments, along with its large marketing set-up and the highly efficient operation in both the segments. IFFCO's sizeable investment portfolio yielding large dividends and interest income and the investments made to ensure raw material security also support the rating action.

The ratings also favourably factor in IFFCO's healthy financial flexibility with ability to raise working capital borrowings at competitive rates. Over the years, the Society has built a large investment portfolio, with investments in Oman India Fertiliser Company (OMIFCO, 25% ownership), Jordan India Fertiliser Company (JIFCO, 27% ownership on standalone basis and 25% through wholly-owned subsidiary, making it 52% ownership on group basis) and IFFCO-Tokio General Insurance Limited (51% ownership). The Society receives healthy dividends from its investments, particularly OMIFCO, where the payouts have remained strong over the last two years. While the dividends are likely to moderate in line with international urea prices, they will still be healthy, going forward.

The Society also has a large portfolio of interest-bearing bonds which provide healthy interest income. Some of the investments e.g. JPMC and Industries Chimiques Du Senegal (ICS) provide raw material security as the Society has entered into long-term offtake agreements with these entities for the supply of rock phosphate and phosphoric acid. The ratings also factor in the Society's large marketing network with nearly 35,000 farmer cooperatives being a part of IFFCO, providing pan-India access to the farmers.

The ratings also factor in the steady and timely subsidy flow from the GoI over the last two years, which has lowered the receivable outstanding and reduced the interest costs. However, feedstock prices have risen in the current fiscal, after declining to materially low levels, which increased the subsidy requirement of the sector as the retail prices have largely remained stagnant. ICRA expects the GoI to continue to support the sector for the timely allocation and distribution of subsidy.

The Society is also expanding into nano urea and nano DAP, along with other nano nutrients. Sales of nano urea have been on the rise. IFFCO has sizeable expansion plans for nano urea, and farmer acceptability remains the key for the segment's growth.

The ratings of the Society are tempered by the vulnerability of the profitability to agro-climatic risks and regulatory policies governing the fertiliser sector, including the fixing of nutrient-based subsidy rates. ICRA notes that the operating profits of the Society are likely to moderate in FY2024, driven by lower subsidy in the phosphatic fertiliser segment vis-à-vis the prices of raw material and international finished fertilisers. The profitability also remains vulnerable to the adverse movements in foreign exchange rates as the company imports a sizeable proportion of its raw materials.

The Stable outlook reflects ICRA's expectation of IFFCO's credit profile remaining stable in the near to medium term, driven by the timely release of subsidy from the GoI. The relatively steady performance of the urea segment and the non-operating income from dividends and investments are expected to ensure a steady cash flow, supporting a Stable outlook for the rating.

Key rating drivers and their description

Credit strengths

Market leader in Indian fertiliser industry - IFFCO is the largest domestic manufacturer of urea and P&K fertilisers in India. The company has the largest urea manufacturing capacity in India with 4.24-MMT capacity across three locations i.e. Kalol (Gujarat), Phulpur and Aonla (Uttar Pradesh). It also has the largest P&K fertiliser manufacturing capacity in India with ~4.3-MMT capacity spread across two plants at Kandla (Gujarat) and Paradeep (Odisha).

Healthy operational efficiency across urea and DAP/NPK plants - IFFCO's plants have maintained high operational efficiency with healthy capacity utilisation levels for both urea and P&K fertilisers and energy-efficient operations at the urea plants. Energy consumption at all the urea plants is well below the pre-set norms under NUP-2015, which results in large energy savings and supports the operating profitability. The energy-efficient plants keep urea production competitive against imports, aiding production beyond the re-assessed capacity. Among the P&K plants, the Kandla plant remains dependent on imported phosphoric acid, while the Paradeep plant has a phosphoric acid manufacturing unit, which results in backward integration and higher operating margins.

Large portfolio of investments in profitable ventures provides dividends and interest income - IFFCO has a sizeable portfolio of investments, built over the years. The book value of investments was around Rs. 4,020.8 crore as on March 31, 2023. The main investments include a 25% ownership in Oman India Fertiliser Company (OMIFCO), 52% ownership on group basis in Jordan India Fertiliser Company, or JIFCO (27% ownership on a standalone basis and 25% through wholly-owned subsidiary) and a 51% ownership in IFFCO Tokio General Insurance Limited. IFFCO has been receiving good dividends from OMIFCO for the last couple of years. Dividends of around Rs. 900-1,000 crore is expected from OMIFCO in FY2024 as well. The market value of the investments is significantly higher than the book value. These investments add significant financial flexibility to the Society as these can be monetised, if the need arises. The investments also includes a large portfolio of tax-free and redeemable bonds from which it derives a healthy interest income, thus aiding cash generation.

Well-entrenched network of cooperatives aids farmer reach and marketing - Nearly 35,000 cooperatives hold ownership in the Society that markets its products through these cooperatives. The Society also has a good brand recall among 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 and continues to be the leading fertiliser company in the country.

High financial flexibility, characterised by ability to raise short-term borrowings at competitive rates - The Society has high financial flexibility as it is able to raise funds from the banking system at a very short notice and at competitive rates. Low long-term liabilities vis-à-vis the net worth and a sizeable investment portfolio, the 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 with adequate subsidy allocation being one of the key factors impacting the sector's credit profile. Additionally, issues like delayed revision in the fixed costs for urea units and an inverted duty structure for the phosphatic segment continue to moderate the industry's performance. The performance of the sector also depends on the monsoon as it directly impacts the agriculture sector, the end user of fertiliser. The profitability also remains vulnerable to foreign exchange fluctuations.

Elevated input costs to exert pressure on profitability in near term – The prices of key inputs - ammonia and phosphoric acid - have risen in FY2022 and H2 FY2024, driven by strong global demand amid limited supplies. Prices of raw material and finished fertilisers are on an increasing trend and the recent NBS rates announced are not sustainable at the current rates. The profitability in FY2024 is expected to moderate with lower NBS rates announced by the GoI and elevated prices of raw materials in the P&K segment. The profitability of the urea segment is also expected to moderate as gas prices have softened.

Liquidity position: Strong

IFFCO's **strong** liquidity is supported by nearly Rs. 3,657.4 crore of cash and bank balance on its books at the end of FY2023. The bank limit utlisation was low in FY2023 amid timely receipt of subsidy from the GoI. Additionally, IFFCO has nearly Rs. 1,298 crore of investments in bond portfolio, which support cash generation through interest income. While the operating cash generation from operations is likely to witness moderation in FY2024, the overall cash flows are likely to remain comfortable on expectations of healthy non-operating income. Thus, the liquidity profile of the Society is expected to remain strong.

Rating sensitivities

Positive factors – A substantial improvement in the debt metrics or monetisation of stake in JVs/subsidiaries could be positive for the ratings. Additionally, a drop in the receivable days, leading to a sustained reduction in the working capital cycle, may support an upgrade.

Negative factors – A material cash outflow due to large acquisition/capex will deteriorate the credit metrics and trigger a downgrade. Any material deterioration in the working capital cycle caused by subsidy receivables remaining above 120 days on a sustained basis may also warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Fertilizers
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 set up in November 1967 and is now one of the largest cooperative body and is completely owned by nearly 35000 cooperative societies across India. The Society is engaged in the manufacturing, importing and marketing 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 the revenue and profitability remains small compared to urea and P&K fertilisers. The Society has three 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 4.24 MTPA which makes it the largest urea manufacturer in India. The company also manufactures DAP and complex fertilisers and has two plants at Kandla and Paradeep with a cumulative capacity of 4.3 MTPA. The company derived nearly 37% revenue from manufactured urea, 54% revenue from manufactured phosphatic fertilisers and the remaining 9% from the Nano Urea, trading of urea, phosphatic fertilisers and indigenous seeds and chemicals.

IFFCO has a sizeable investment portfolio of Rs. 2,722.86 crore (end of FY2023) with investments in companies based in India and abroad. The investments include ownership in IFFCO-Tokio General Insurance, Oman India Fertiliser Company SAOC (OMIFCO), Jordan India Fertiliser Company LLC(JIFCO), Triumph Offshore Private Limited etc. The company also had a sizeable portfolio of tax-free bonds/NCDs worth Rs. 1,297.96 crore and cash and bank balances of Rs. 3,657.4 crore at the end of FY2023.

Key financial indicators (audited)

IFFCO Standalone	FY2022	FY2023
Operating income	40171.7	60324.0
PAT	1883.8	3052.7
OPBDIT/OI	4.6%	5.0%
PAT/OI	4.7%	5.1%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	5.0	3.3
Interest coverage (times)	4.6	4.1

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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		
					Dec 14, 2023	Dec 27, 2022	Dec 21, 2021	Sept 22, 2021	Mar 12, 2021	Sept 11, 2020	Aug 10, 2020
1	Fund based – Term loans	Long term	950.00	872.50	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund based – Cash credit	Long term	5,500.00	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-fund based facilities	Short term	5,965.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund-based facilities	Short term	15,585.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial paper programme	Short term	156.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Term loans	Simple
Fund based – Cash credit	Simple

Non-fund based facilities	Very Simple
Fund-based facilities	Simple
Commercial paper programme	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
NA	Fund based – Term loans	FY2017-FY2022	-	FY2023-FY2027	950.00	[ICRA]AA+ (Stable)
NA	Fund based – Cash credit	NA	NA	NA	5,500.00	[ICRA]AA+ (Stable)
NA	Non-fund based facilities	NA	NA	NA	5,965.00	[ICRA]A1+
NA	Fund-based facilities	NA	NA	NA	15,585.00	[ICRA]A1+
Not yet Placed	Commercial paper programme	NA	NA	NA	156.00	[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 – Not applicable.

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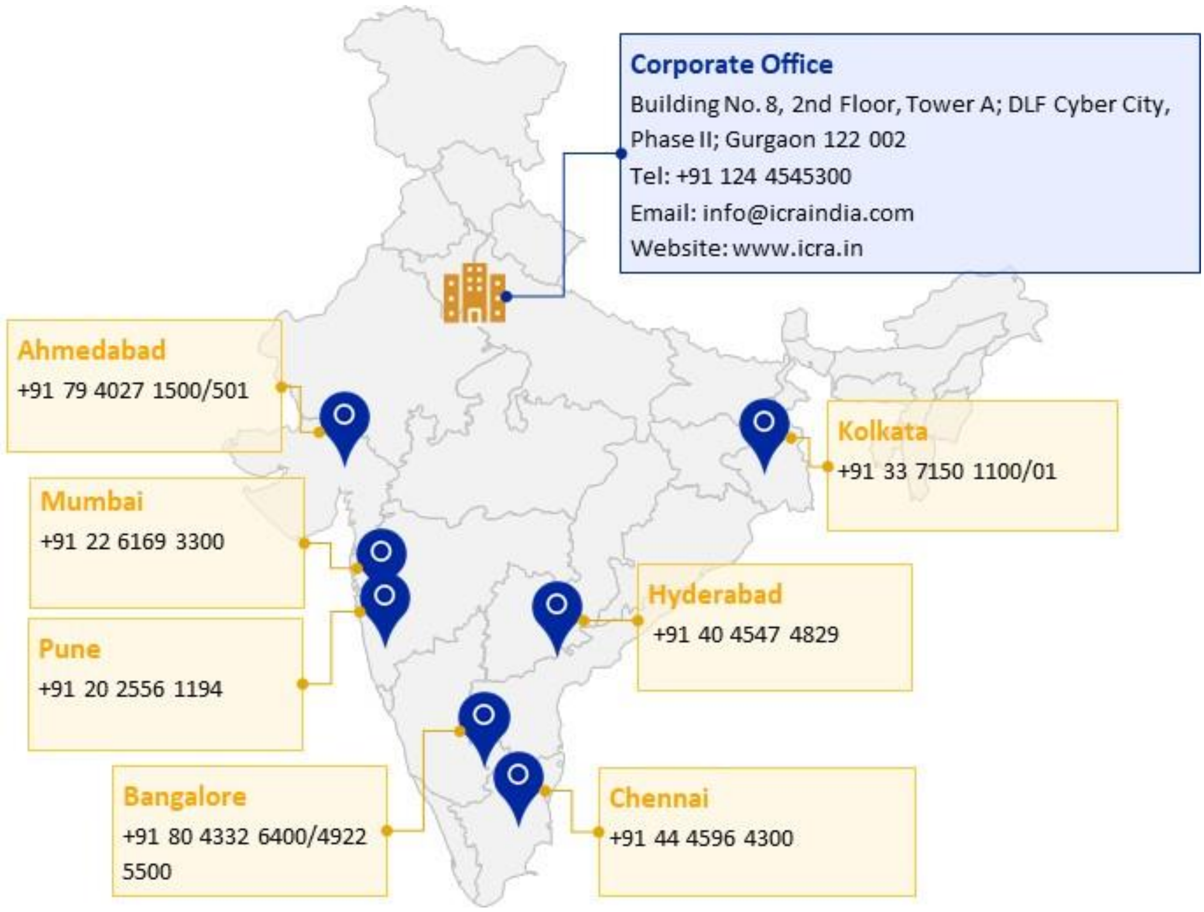

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