

May 17, 2024

National Fertilizers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based cash credit	9000.0	9000.0	[ICRA]AA (Stable); reaffirmed
Short term - Non-fund based facilities	9600.0	9600.0	[ICRA]A1+; reaffirmed
Long-term unallocated limits	1044.0	0.0	-
Commercial paper^	4000.0	4000.0	[ICRA]A1+; reaffirmed
Total	19,644.0	18,600.0	

*Instrument details are provided in Annexure-I; ^the commercial paper programme is carved out of the fund-based limits of the company

Rationale

The rating reaffirmation for the credit facilities of National Fertilizers Limited (NFL) factors in the expectation of a steady improvement in the profitability of the urea segment with a moderation in energy consumption at all the units. The energy consumption of the plants is expected to be lower than the normative norms, thereby improving the cash flow generation. The rating action also factors in NFL's presence in the industrial chemicals segment, which provides some degree of insulation from subsidised products. While the margins in industrial chemicals declined in FY2024 and are likely to remain lower than FY2023, the segment provides diversification benefit and stability to cash flows. ICRA also factors in the stabilisation of the fertiliser plant under NFL's joint venture - Ramagundam Fertilisers and Chemicals Limited (RFCL) - which was facing operational issues earlier.

The ratings continue to factor in NFL's leadership position in the fertiliser industry, along with the sustained comfortable receivable cycle owing to the timely release of subsidy by the GoI and expectation of the trend continuing in the future. The ratings also factor in the low demand risk for urea and NFL's parentage with the Government of India (GoI) holding more than 74% stake in the company and the exceptional financial flexibility arising out of its strategic importance to the GoI.

The ratings are constrained by the vulnerability of the sector's profitability to the regulatory policies formulated by the GoI. The downward revision in energy norms and the removal of the floor price of Rs. 2,300/MT on the fixed costs have lowered the profitability of urea operations for the entire industry, including NFL. The profitability of phosphatic fertiliser sellers depends on the NBS rates announced by the GoI. The performance of the fertiliser sector also remains vulnerable to the vagaries of the monsoon as a sizeable portion of the arable land depends on the monsoons for irrigation. The performance of the fertiliser sector also remains vulnerable to the timely release of subsidy by the GoI as significant delays would increase the working capital borrowings and the associated interest costs. However, the receipts have been timely so far, resulting in limited build-up of subsidy receivables.

NFL's profitability was impacted severely in FY2024 owing to the losses in the urea segment following the multiple shutdowns and consequently higher energy consumption. The trading portfolio was also impacted by high import prices and low subsidy. NFL got an assurance from the Department of Fertilisers for protection of losses in the trading segment, which has shielded the profitability to some extent. The profitability of the trading segment in FY2025 hinges on the import price of the traded products and the revision in nutrient-based subsidy (NBS) rates for H2 FY2025. The stabilisation of urea operations across plants is likely to improve the profitability in the urea segment, going forward.

NFL is a joint venture (JV) partner in RFCL, which has set up a 1.27-MMTPA urea plant at Ramagundam, Telangana. The plant had faced stabilisation issues post its commissioning in March 2021, but the performance has been improving since FY2024. The plant is expected to achieve healthy capacity utilisation and energy consumption, going forward.

NFL has also been nominated a JV partner for setting up a 1.27-MMTPA urea unit in Assam at the facility of Brahmaputra Valley Fertiliser Corporation Limited (BVFCL) with an equity contribution of 28%. There hasn't been any major development in the project. ICRA will assess the impact of this investment on the credit profile of the company as and when the details are finalised. The Stable outlook on the long-term rating reflects ICRA's opinion that the company will be able to generate steady cash flows from operations, driven by improvement in energy consumption and steady profits from the industrial chemicals segment.

Key rating drivers and their description

Credit strengths

Expected improvement in urea operations post implementation of energy saving schemes to support cash generation - The completion of the Energy Savings Scheme (ESS) to meet the normative energy norms is expected to enable NFL's urea units to consume lower energy vis-à-vis the normative norms. The performance of the urea segment moderated in 9M FY2024 due to the shutdowns taken for implementing the energy saving capex. The operating performance is expected to improve from FY2025, driven by the profits in urea operations on account of lower energy consumption vis-à-vis the normative norms, even as pooled gas prices are expected to remain steady. For the traded portfolio, the profitability moderated owing to high import prices and inadequate subsidy and retail prices. In FY2024, the DoF assured protection against losses in the trading segment. The profitability of the trading segment, going forward, will hinge on prevailing international prices and the subsidy rates announced by the GoI under the Nutrient-Based Subsidy (NBS) scheme.

Improving product mix with contribution from industrial and other products in profitability – NFL sells ammonium nitrate and nitric acid under its industrial products segment along with phosphatic fertilisers, compost, agrochemicals etc. under the trading segment. The company is also looking at capex towards micro-nutrients, water soluble fertilisers, agrochemicals, etc along with a nano urea facility with an aim to derisk the business from subsidised products and focus on high-margin non-subsidised products. The realisation from industrial products and agrochemicals moderated in FY2024, thus compressing the margins and profit generation from these segments. Nevertheless, the industrial chemicals segment provides some degree of diversification and insulates the profits from the uncertainties in the subsidised product portfolio.

Second-largest urea manufacturer with nearly 16% domestic capacity share; leading market position in northern and central India– With nearly 3.57 MMT of urea production capacity, NFL is second only to IFFCO in the country in terms of urea capacity. NFL has a vast marketing network comprising dealers, cooperative societies and institutional agencies spread over 20 states in India. The company sells its urea through a network of more than 2,800 dealers, state marketing federations and cooperative societies.

Large sovereign ownership provides strong financial flexibility – NFL benefits from the large GoI ownership of 74.71% as it is able to raise funds at very competitive rates, aiding its profitability as the interest charges remain low. The Government has supported the farm sector in the past and ICRA expects this to continue. ICRA expects the GoI to support NFL going forward as well, as and when needed. The GoI is in the process of divesting a 20% stake in NFL through an offer for sale, although no timelines have been specified for the stake sale.

Favourable demand-supply scenario of urea in India - The import dependence for urea remains in the range of 20-25%, given the inadequate domestic capacity (this proportion is likely to decline with the commencement of operations of new urea units). With a significant price differential between urea and non-urea fertilisers, the demand for urea remains intact and is expected to grow at a stable rate of 1-3% in the near to medium term although the growth/degrowth may move out of this range in a few years.

Credit challenges

Vulnerability of fertiliser sector's profitability to regulatory policies and agro-climatic conditions – The agricultural sector in India remains vulnerable to the vagaries of the monsoon as the area under irrigation remains low, exposing the fertiliser sector's sales and profitability to volatility in weather conditions. The sector, being highly regulated, also remains vulnerable

to changes in regulations by the GoI. Moreover, the NBS rates fixed by the GoI for NPK fertilisers have impacted the profitability of the companies in this segment as the rates along with the retail prices have remained inadequate. The same reason pulled down NFL's profitability in FY2024 and this is likely to continue in H1 FY2025.

Sensitivity of cash flows to timely subsidy release by GoI - In the past, fertiliser companies have witnessed significant cash-flow mismatches owing to the delays in the release of subsidy by the GoI due to inadequate subsidy budgeting. The subsidy receipt from the GoI has been timely from FY2022 to FY2024, post the clearance of the subsidy backlog in FY2021. Going forward, the timely receipt of the subsidy from the GoI will remain a key monitorable.

Environmental and Social Risks

Global efforts towards decarbonisation and focus on the impact of fertiliser use on soil health may lead to the development of new types of fertilisers and lower the demand for conventional fertilisers. However, in India, ICRA does not expect any material impact on conventional fertiliser offtake in the near to medium term, given the country's import dependence as well as the time taken by the end-consumers to accept new products.

Fertiliser manufacturing, particularly urea, has a significant carbon footprint as natural gas is the key raw material for the synthesis of hydrogen which goes into the production of ammonia and thereafter urea. The GoI is looking to pass a mandate for refineries and fertiliser plants to procure green hydrogen and this may create additional cost burden for urea manufacturers. ICRA expects the GoI to provide adequate policy support to the sector if it decides to mandate the sector to meet a part of its hydrogen requirement through the green route.

Rising awareness about the use of chemical fertilisers in farming and the growing clamour for organic produce can impact fertiliser offtake. However, the productivity in organic farming remains low at present and thus the near-term risk to fertiliser offtake is low. Going forward, technological breakthroughs to develop organic alternatives with equal or better productivity can pose a significant threat to fertiliser offtake, although the threat remains long term in nature.

Liquidity position: Adequate

The liquidity position of the company remains adequate, given the availability of large working capital borrowing limits, adequate drawing power and the large sovereign ownership which yields significant financial flexibility. The timely inflow of subsidy from the GoI over the last few quarters and expectations of the trend continuing will support the liquidity position of the company.

Rating sensitivities

Positive factors – A sustained improvement in the profit margins amid a healthy working capital intensity and an adequate liquidity profile on a sustained basis could improve the ratings.

Negative factors – A deterioration in the working capital cycle, leading to receivable days of more than 150 days on a sustained basis, may lead to a downgrade. The company's inability to improve its debt protection metrics will also put pressure on the ratings. Additionally, a reduction in the GoI stake below 50%, or weakening of the linkages with the GoI, and/or change in the support philosophy of the GoI could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology -Fertilisers
Parent/Group support	Parent: Government of India; The ratings factor in the parentage of the GoI and the strategic importance of NFL for the GoI as the company is a major fertiliser supplier in the country and ensures lower reliance on imported urea
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of NFL

About the company

National Fertilizers Limited (NFL), incorporated in 1974, is a public sector Navratna undertaking, primarily engaged in the manufacturing of urea. The company's operations are spread across five units, one each in Nangal and Bhatinda (Punjab), and Panipat (Haryana), and two units at Vijaipur (MP). NFL commenced operations by setting up two FO/LSHS based urea units at Bhatinda (Punjab) and Panipat (Haryana) in 1979. Subsequently, as part of the reorganisation of public sector fertiliser companies, the Nangal (Punjab) unit of Fertilizer Corporation of India (FCI) came under the NFL fold. These three plants subsequently shifted to natural gas-based ammonia production. The company set up another urea plant at Vijaipur (Vijaipur-I), Madhya Pradesh, in 1988 when the Hazira-Vijaipur-Jagdishpur (HVJ) gas transmission pipeline was set up. NFL undertook brownfield expansion of the Vijaipur plant (Vijaipur-II) in 1997. The Vijaipur units are gas-based, with the Vijaipur-II plant having dual feedstock ability (naphtha and gas).

NFL has a combined urea production capacity of 3.57 MMTPA as on date, making it the second-largest producer of urea in the country. The GoI currently holds a 74.71% stake in the company. The GoI is looking to divest a 20% stake in NFL. Through Department of Investment and Public asset management (DIPAM), the GoI has invited proposals from legal advisers, merchant bankers and brokers.

Key financial indicators (audited)

NFL Standalone	FY2022	FY2023	9M FY2024*
Operating income	15,857.1	29,616.5	18,288.8
PAT	108.2	456.1	-117.0
OPBDIT/OI	3.7%	3.6%	1.4%
PAT/OI	0.7%	1.5%	-0.6%
Total outside liabilities/Tangible net worth (times)	3.6	3.6	-
Total debt/OPBDIT (times)	5.4	3.7	-
Interest coverage (times)	4.3	3.5	1.3

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
					May 17, 2024	May 23, 2023	Apr 10, 2023	Apr 14, 2022	Apr 06 2021
1 Cash credit	Long term	9000.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
2 Non-fund based facilities	Short term	9600.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3 Unallocated limits	Long term	0.0	-	-	[ICRA]AA (Stable)	-	-	-	
4 Term loans	Long term	0.0	-	-	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
5 Commercial paper [^]	short term	4000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

[^] The commercial paper programme is carved out of the fund-based limits of the company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based	Simple
Short term - Non-fund based	Very simple
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
NA	Long term – Fund-based	NA	NA		9000.0	[ICRA]AA (Stable)
NA	Short term - Non-fund based	NA	NA		9600.0	[ICRA]A1+
Unplaced	Commercial paper [^] -	NA	NA		4000.0	[ICRA]A1+

Source: Company; [^] The commercial paper programme is carved out of the fund-based limits of the company

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Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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