Indian Potash Limited

Instrument	Rated Amount	Rating Action July 2016
Short term, Commercial Paper	Rs. 800 crore (enhanced from Rs. 500.0 crore)	[ICRA]A1+; assigned

ICRA has assigned the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 800 crore[1] (enhanced from Rs. 500 crore) Commercial Paper (CP) Programme of Indian Potash Limited (IPL/ 'the company')[2].

ICRA also has an outstanding long term rating of [ICRA]A+ (pronounced ICRA A plus) to the Rs. 1100 crore fund based working capital facilities and a short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs 6950.00 crore non fund based bank facilities of IPL. The outlook on the long term rating is 'Stable'.
The ratings continue to favourably consider IPL's leading market position in the trading of the three major fertilizers, urea, di-ammonium phosphate (DAP) and muriate of potash (MOP), its strategic importance to GoI as one of the canalising agencies for urea imports and as the largest importer of MOP, its favourable competitive position arising from its longstanding supplier relationships and a wide pan-India distribution network, and the scale and efficiency of its handling operations. The company derives a major portion of its revenues (31% in FY 2016) from MOP, in which it is the market leader with a 55% market share. IPL also has second largest market share in DAP in India. The company is one of the three canalising agencies (apart from MMTC Limited and State Trading Corporation of India) for import of urea on behalf of Government of India (GoI). Although urea handling is not very profitable, IPL earns service charges for urea imports on GoI account through canalisation and high sea sales to complex fertiliser manufacturers, which add to its profits. With over five decades of expertise in fertiliser trading operations, the company has longstanding relationships with all the major international suppliers and extracts significant concessions in pricing, as compared to its competitors, owing to the large order volumes. The company also has one of the most extensive fertilizer distribution network in India, covering more than 90% of the country's villages, which is a strength considering the regional nature and freight intensity of fertilizer distribution.

The ratings also draw comfort from the favourable prospects for fertilizer imports, given the lack of self sufficiency in India, besides the company's strong parentage and comfortable liquidity, characterised by large cash balances and high financial flexibility. IPL's overall sales and profits have grown steadily over the past decade following an increase in trading volumes, which in turn has been enabled by larger imports necessitated by an increasing shortfall between fertiliser demand and indigenous production. The company also 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 also holds special fertiliser bonds issued by GoI. These provide substantial financial flexibility to the company with regards to managing its working capital.

The above mentioned rating strengths are partially offset by the large volatility witnessed in the revenues and profits over the past few years owing to the subdued demand for some of the traded products due to adverse market conditions as well as the heavy exchange rate fluctuations. Post FY 2012, due to the implementation of the Nutrient Based Subsidy scheme, the demand for the non urea fertilisers has fallen, owing to the large price differential with urea, leading to sizeable revenue de-growth in the past few years. The operating profitability has also been impacted in the recent past due to large sales discounts provided to the dealers in the wake of high systemic inventory. Though the interest expenses are typically low for the company, increase in subsidy burden has increased the overall interest costs. Besides, the net margins have been low in some of the years owing to the large impact of currency fluctuations as the company does not possess any natural hedge against its imports.

The ratings are also constrained by the relatively high working capital intensity of operations and resulting high working capital borrowings due to the sizeable subsidy/trade receivables and inventory levels. The Company receives the subsidy payments (initial 85% and the final 15% after certification from States) with a large time

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

lag and hence the overall receivables position continues to remain stretched. The inventory levels have also remained high as on 31st March 2016, on which, IPL would record some losses in FY 2017, due to reduction in MRP & lower NBS subsidy rates for NPK fertilizers. However, the inventory losses will be offset to some extent by lower procurement price of MOP and DAP, leading to healthy trading margins during FY 2017.

The ratings also consider the low return indicators witnessed over the past few years owing to the large losses posted by the sugar division; and, the company's low capitalisation levels in relation to its turnover. 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 products distribution and acquired five sugar mills in Uttar Pradesh. Though the smaller cattle feed and dairy divisions are profitable, the sugar division continues to post losses owing to the very low sugar prices and the high cane prices paid to the farmers (as stipulated by the UP Govt); though the performance of the division has improved in FY 2016 following the improvement in sugar prices. With large amount of capital invested in this division, the overall return indicators of the company have remained depressed post FY 2011. Sustainable turnaround in the performance of the sugar division and ability of the company to maintain its margins given the fluctuations in commodity prices, working capital cycle and forex volatility would be the key rating sensitivities.

Company Profile

Indian Potash Limited (IPL) was incorporated as Indian Potash Supply Agency (IPSA) in 1955 for 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 National Commission on Agriculture, the equity base of the company was expanded with majority shareholding with cooperatives and Public Sector Fertilizer companies in 1970. Following this, IPSA was converted into IPL. Currently the co-operative and public sectors own 70.21% and 12.68% respectively in IPL, with IFFCO being the largest shareholder with 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 fertilizers such as Single Super Phosphate (SSP) and other products like gypsum etc. The company's distribution network reaches 6 lakh villages in India out of a total of 6.5 lakh villages, enabling 90% coverage throughout India. IPL has its own warehousing facility at all major ports and outsourced warehousing facilities throughout India.

IPL is also into production of cattle feed and milk processing with a plant in UP. In milk processing, the company has entered into an agreement with Mother Diary, a leading supplier of sachet milk in National Capital region (NCR). In 2011, the company also bought five sugar mills in Uttar Pradesh on a slump sale basis and has been operating the plants since.

Recent Results

During FY2016, the company reported operating income of Rs. 16460.9 crore (as against Rs. 15542.4 crore during FY2015) and profit after tax of Rs. 161.9 crore (as against profit after tax of Rs. 211.2 crore during FY2015).

July 2016

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