Paradeep Phosphates Limited

Instrument	Amount In Rs. Crore^	Rating Action
Fund-based, Long-term facilities	1,000	[ICRA]BBB+ reaffirmed; outlook revised to Negative from Stable
Non-fund Based, Short-term facilities	2,300	[ICRA]A2+ reaffirmed
Non-fund based, Short-term unallocated*	200	[ICRA]A2+ reaffirmed

**earlier rated as part of Non-fund based short term facilities*

ICRA has retained the ratings outstanding of [ICRA]BBB+ (pronounced ICRA triple B plus) and [ICRA]A2+(pronounced ICRA A two plus) for the Rs 3500 crore long term fund based and short term non fund based facilities of PPL . The outlook on the long term rating has been revised to Negative from Stable. †

The revision in the outlook reflects weak financial performance of the company during H1 FY2017 on account of price intervention by GoI for DAP/NPK and MOP resulting in inventory valuation losses and high interest costs resulting from continued elevated short term borrowing levels due to slower than anticipated subsidy flow during H1 FY2017. GoI's intervention in pricing of non-urea fertilisers i.e. DAP/NPK and MOP through government entities as a result of decline in raw material prices resulted in retail prices for DAP, NPK and MOP declining by Rs 2500 per MT, ~Rs 1000 per MT and Rs 5000 per MT respectively. As a result the company had to recognise inventory valuation losses of ~ Rs 46 crore in Q1 FY2017 for significant carryover inventory from FY2016. The flow of subsidy from GoI to the company has also been slow in H1 FY2017 which has resulted in working capital borrowings declining marginally towards the end of H1 FY2017 from the end of FY2016. As a result the interest charges have been higher than expected further negatively impacting profitability for the company. Due to losses in H1 FY2017 the debt and coverage indicators have weakened and a recovery in profitability in H2 FY2017 will be imperative for any improvement in debt metrics. Nevertheless, decline in key raw material (phosphoric acid and ammonia) prices in Q2 and Q3 FY2017 has resulted in margin expansion for DAP/NPK fertilisers which is expected to aid profitability in H2 FY2017. The ability of the company to improve profitability and cash flow position in the near term will remain a key rating sensitivity.

The ratings continue to factor in the company's established position as one of the largest manufacturers of phosphatic and complex fertilisers in India and its leading market position in its marketing territories. The ratings also factor in the substantial gap between domestic production and consumption leading to limited demand-related risks and the company's moderate cost position due to high operating efficiency and part backward integration into the manufacture of phosphoric acid. The company's established relations with overseas raw materials' suppliers due to the latter belonging to the promoter group generally results in smooth availability of raw materials. The ratings also consider the high financial flexibility arising from its association with the Adventz Group (part of the erstwhile K.K. Birla Group) and sizeable liquid assets (in the form of fertiliser bonds). Besides, ICRA notes that PPL derives benefits from the group's presence in P&K business through three companies viz Zuari Agro and MCF besides itself, in the areas of raw material procurement, plant operations and marketing.

The ratings are constrained by the vulnerability of the company's profitability to agro-climatic and regulatory risks, with the former being reflected by muted demand in recent years and the latter being reflected by substantial delays in subsidy receipts from the GoI in recent years leading to high short-term borrowings. The ratings also continue to factor in the company's relatively high segmental concentration towards phosphatic/complex fertilisers, significant exposure to forex fluctuation risks being a major importer and high working capital intensity of its fertiliser business. The performance of P&K fertiliser manufacturers (such as PPL) is relatively more vulnerable to regulatory (subsidy levels) as well as economic variables (such as supply-demand, commodity prices and currency movements). Further, substantial price increase in the prices of P&K fertilisers post the implementation of NBS have adversely impacted demand due to significant price differential with urea.

^ 100 lakh = 1 crore = 10 million

The company is also undertaking capex linked with construction of gypsum pond for a total capital outlay of Rs 208 crore and debottlenecking of its existing DAP/NPK capacity to 1.5 MMTPA by the end of FY2018 at a total cost of Rs 150 crore. Any additional significant debt funded capex/ investments resulting in further moderation of debt metrics will remain a key rating sensitivity.

Company Profile

Paradeep Phosphates Limited (PPL) was incorporated in 1981 as a joint venture between the Government of India (GoI) and the Republic of Nauru to set up facilities for the manufacture of di-ammonium phosphate (DAP) at Paradeep, Orissa. In 1993, the Republic of Nauru disinvested its equity stake to the GoI and PPL became a public sector enterprise wholly owned by the GoI. In February 2002, GoI disinvested 74% of PPL's equity in favour of Zuari Maroc Phosphates Private Limited (ZMPPL), a 50:50 joint venture between Zuari Industries Limited (ZIL, a K.K. Birla Group company) and Maroc Phosphores, Morocco (part of OCP Group, Morocco). ZIL was demerged into Zuari Agro Chemicals Limited (ZACL, earlier Zuari Holdings Limited, rated [ICRA]BBB+(Negative) / [ICRA]A2+) and Zuari Global Limited w.e.f. July 1, 2012. Currently, ZMPPL holds 80.45% stake in PPL, while the remaining 19.55% is held by the GoI. As on September 30, 2002, the company's net worth had turned negative due to continuing losses and it was referred to BIFR in February 2003. BIFR, after several rounds of hearings involving various stakeholders, approved a final restructuring scheme in October 2008. The company formally exited BIFR in August 2011.

PPL is currently among the top few integrated DAP plants in India with an installed annual capacity of 0.72 million metric tonnes per annum (MMTPA) of DAP / NPK complex fertilisers (effective capacity of 1.3 MMTPA), 0.35 MMTPA of phosphoric acid and 1.32 MMTPA of sulphuric acid. Actual production of DAP / NPK fertilisers has remained higher than the installed capacity over the past few years due to initiation of several operational improvement and debottlenecking projects by the management. The company has also scaled up trading operations of various P&K fertilisers, pesticides and agro-chemicals, etc. in recent years. The company is almost fully reliant on imported raw materials (rock phosphate, phosphoric acid, ammonia, sulphur, potash, etc.) for its operations and has a dedicated jetty at the Paradeep Port for these imports. The company completed its sulphuric acid plant commissioning in FY2016 at a total cost of Rs 584 crore.

As per un-audited results in H1 FY2017, the company posted a net loss of Rs 61 crore on an operating income of Rs 1757 crore. In FY2016, the company reported a net profit of Rs. 77 crore on an operating income of Rs. 4,784 crore against net profit of Rs. 43 crore on an operating income of Rs. 4,172 crore in FY2015.

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