ICRA

February 24, 2017

Greenstar Fertilizers Limited

Instrument	Amount	Rating Action
Long term, Fund based facilities	Rs. 400.0 crore	[ICRA]BBB- (Stable); reaffirmed

* Instrument Details are provided in Annexure I

Rating Action

ICRA has reaffirmed the long term rating of Greenstar Fertilizers Limited (GFL/'the company') at [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs 400.0 crore[1] fund based working capital facilities. The outlook on the rating is Stable[2].

Rationale

The rating continues to factor in the longstanding experience of the Group in phosphatic fertiliser manufacturing and marketing; the company's established position as a significant player in the South market with a leading market share in Tamil Nadu. Moreover, the company continues to get financial support from the holding company viz A M International Holdings Private Limited in the form of SBLC backed working capital borrowings, favourable credit terms on sourcing of key raw materials and the proposed funding in the form of bonds subscribed by the promoters which would replace the working capital borrowings.

The assigned rating continues to remain constrained by the company's sectoral concentration to the phosphatic fertiliser segment with the demand for DAP & Complex being subdued owing to agro-climactic conditions and the large price differential with urea post the implementation of NBS. The rating also takes into account the weak standalone financial profile of the company marked by low profitability, high gearing and modest debt coverage. The operating margins have fluctuated as a result of the exposure to prices of key raw materials like phosphoric acid and ammonia, and restrictions on MRP of products due to regulatory supervision. Further, with dependence on imports for procurement of raw materials, the profitability of the company remains exposed to fluctuations in exchange rates. The rating is further constrained by the increase in the working capital intensity following the increase in trade and subsidy receivables as also the increase in inventory levels. The rating also considers the low financial flexibility owing to the weak credit history of SPIC Ltd, the key entity in the promoter group.

The financial performance has, however, improved in the current fiscal driven by fall in key raw material prices. Further, the company's ongoing project to increase the installed capacity of phosphoric acid plant by ~0.1MTPA with a budgeted outlay of ~Rs. 110 crore is largely complete and nearing completion. The project is expected to get commercialised by Mar-2017, which is expected to improve its cost structure from the current levels. ICRA also considers the letter of comfort extended by the group company- A M Internationals Holdings Private Limited, vide which, it has given an undertaking to provide financial support to GFL on a timely basis for debt service.

[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

Key Rating Drivers

Credit Strengths

- Established position as one of the largest manufacturers of DAP and Complex fertilizers in South India
- Favorable outlook for Phosphatic fertilizer manufacturers in India due to the nutrient deficiency in the soil and due to the large shortfall between current production and consumption levels
- Sourcing of key raw materials through foreign associates (part of the SPIC Group) provides steady availability of inputs and an extended credit period
- Demonstrated support from the Group in the form of cash collateral for working capital borrowings; committed funding of US$ 50 million through the bond route in the near term

Credit Weakness

- Weak financial profile marked by low profitability, high gearing and modest debt coverage; higher raw material prices impacted the operating profitability
- Relatively weaker credit profile of the group
- Demand outlook for fertilizers is heavily tied to agro-climactic conditions and regulatory policies; moreover, post implementation of NBS, the increase in price differential between urea has resulted in a decline in the demand for phosphatic fertilizers
- Working capital intensity has increased substantially due to the increase in credit period offered to dealers and the long delays in the realization of subsidies from the Government
- Large import requirements exposes the company to foreign exchange fluctuation risks

Description of key rating drivers highlighted above:

GFL is one of the largest phosphatic fertiliser players in South India with a manufacturing capacity of 6,00,000 MTPA of DAP / Complex. A new Single Super Phosphate (SSP) plant was set up in October 2010 with a capacity to produce 1,15,000 MTPA. The Company also produces various raw materials/intermediaries required for the production process and also has the requisite utilities/infrastructure setup. The Company uses SPIC's branding (through a royalty agreement) and marketing network which is spread across India and has the advantage of bundling its products with SPIC's Urea and hence has increased acceptance amongst dealers. Hence the Company holds a sizeable market share in the Southern market in both DAP and NPK product segments.

The key raw materials required for the process are Rock Phosphate, Ammonia and Sulphur. The Company imports these inputs primarily through its Group Company- Wilson International Trading Pte Limited (Wilson). This provides GFL the flexibility of availing a higher credit period and has aided in managing the liquidity of the business. Also, to manage the lower internal production of Phosphoric Acid, the GFL entered into a tolling arrangement with Sterlite (which has a proximate plant) to procure Phosphoric Acid (PA). This has resulted in improvement in the capacity utilisation in the past couple of years following higher availability of PA.

Though the prices of the key raw materials have moderated in the recent past, the company has not been able to enjoy higher profitability as part of the benefit has been passed on to the customers in the form of lower selling prices. Also, the tolling agreement with Sterlite links the PA prices with global PA prices and hence the profitability is lower as compared to usage of PA through internal production. The ongoing PA plant expansion, at a cost of Rs 110 crore, is expected to provide the company with this cost benefit post COD in March 2017.

The company's working capital requirements have traditionally been very high due to the large delays in the receipt of payments from dealers and subsidies from the Government (though some moderation has been witnessed in the recent past following release of subsidy payments). This has resulted in a steady increase in the working capital intensity and the company has resorted to increased borrowings and creditor funding. Nevertheless, the promoters are planning to infuse USD 50 million through the masala bond route in 2017 which will replace the high-cost working capital borrowings and aid in the liquidity position of the company as the repayment is scheduled post three years.

Analytical approach:

Links to applicable criteria
Corporate Credit Rating – A Note on Methodology
<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company
Greenstar Fertilisers Limited came into existence when the erstwhile phosphatic fertiliser division was hived off from Southern Petrochemical Industries Corporation Limited (SPIC Ltd) in October 2011. This facility, which was a part of the fertilizer manufacturing complex of SPIC at Tuticorin, was sold to GFL on a slump-sale basis (as part of SPIC's Corporate Debt Restructuring exercise) with the transfer of the entire assets of the division. As per the Business Transfer Agreement, the promoters paid the entire consideration by way of equity and loans in FY 2012 and took over the operations. Currently, various entities controlled by Mr. Ashwin Muthiah have 90% equity stakes in the company. Toyota Tsusho Corporation, the trading arm of the Toyota group, holds the balance 10% stake.

The company manufactures Di Ammonium Phosphate (DAP), NPK Complex and Single Super Phosphate (SSP) in its Tuticorin manufacturing plant and markets it across India. In addition, the Company also markets micro nutrients, mixtures, and various industrial products which are produced as by-products. The Company has a leading share in the phosphatic fertiliser market in Tamil Nadu and a substantial share in the southern market. In addition to the fertiliser production plant, the company also operates plants to produce various intermediaries like Phosphoric Acid and Sulphuric Acid.

During FY2016, the company reported operating income of Rs. 1972.8 crore (as against Rs. 1641.4 crore during FY2015) and profit after tax of Rs. 9.7 crore (as against Rs. 1.8 crore during FY2015). During H1 FY17 (provisional unaudited financials), the company reported operating income of Rs.923.8 crore and profit before tax of Rs. 6.2 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:

Table: Rating History

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<tr><th rowspan="2">Type</th><th rowspan="2">Rated amount (Rs. Crores)</th><th>Month-year & Rating</th><th>Month- year & Rating in FY 2016</th><th>Month-year & Rating in FY 2015</th><th>Month-year & Rating in FY 2014</th></tr>
<tr><th>February 2017</th><th>November 2015</th><th>November 2014</th><th>-</th></tr>
<tr><td>1</td><td>Long term, Fund based</td><td>Long Term</td><td>400.0</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BB+ (Stable)</td><td>-</td></tr>
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Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	400.0	[ICRA]BBB- (Stable)

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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.

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