

## Krishak Bharati Cooperative Limited

Instrument	Amount in Rs. Crore <sup>^</sup>	Rating Action
Commercial Paper	100	[ICRA]A1+ assigned
Fund-based, Long-term Facilities	2800 (enhanced from 2,705)	[ICRA]AA (Stable) outstanding
Non-Fund Based, Short-term Facilities	1200	[ICRA]A1+ outstanding
Term Loans	0 (reduced from 95)	-

Rating of [ICRA]A1+ (pronounced ICRA A one plus) has been assigned to the Rs. 100 crore Commercial Paper programme of Krishak Bharati Cooperative Limited (KRIBHCO). ICRA has also rating of [ICRA]AA (pronounced ICRA double A) outstanding for Rs 2800 crore (enhanced from Rs 2705 crore) long term fund based facilities and the rating of [ICRA]A1+ for the Rs 1200 crore short term non-fund based facilities of KRIBHCO. The outlook on the long term rating is 'Stable'.<sup>†</sup>

While assigning the ratings, ICRA has taken a consolidated view of KRIBHCO and its subsidiaries Kribhco Shyam Fertilisers Limited (KSFL – rated [ICRA]A1+) and Kribhco Infrastructure Limited (KRIL) due to the strategic nature of these investments and the corporate guarantees extended for their bank facilities by KRIBHCO. The ratings factor in the society's established position as the third largest manufacturer and second largest marketer of urea in India with a ~12% market share, with strong brand recall due to its long track record of close to three decades, stable cash flow from urea operations and ownership by cooperatives, who are engaged in distribution of fertilisers, leading to an established pan-India market presence and reach to farmers. Despite the diversified ownership, the society is professionally managed and has strong financial flexibility on account of large net worth and strength of its investments. The financial flexibility is manifested in the form of ability to raise funding at competitive rates for the society and its subsidiaries. Besides, the fact that the cooperative's subsidy receivables from the Government of India (GoI) as of end-FY2016 exceed its debt levels provides comfort from the debt repayment perspective.

The society benefits from access to urea from its Hazira plant, the Shahjahanpur plant of its subsidiary KSFL and imported urea from its joint venture Oman India Fertilizer Company SAOC (OMIFCO). Also, the competitive cost structure on account of the Hazira plant being depreciated and improvement in energy efficiency will protect margins against competition from imports in case of decontrol or in case of implementation of NBS, except in case of a steep increase in gas prices or further material decline in global urea prices. On the other hand, the society has been getting healthy cash flows in the form of dividends from OMIFCO during the past few years. Although dividend income declined during FY2015 due to operational issues at the OMIFCO plant, it increased substantially in FY2016 as operational issues were resolved at the plant. The comfortable financial risk profile of the society is characterised by stable cash accruals. The society's liquidity position has remained healthy due to moderate usage of working capital facilities and access to large bank limits.

The ratings also factor in the vulnerability of profitability to regulatory policies and agro-climatic conditions and sensitivity of cash flows to delays in subsidy receipts from the GoI, which has resulted in high debt levels and interest costs for the cooperative in recent years and impacted the capital structure and net profits to that extent. Due to change in policy related to production beyond the re-assessed capacity (RAC), production beyond RAC was profitable in FY2016 despite soft international urea prices. Any further material decline in urea prices and/or increase in gas prices could negatively impact profitability despite the revision in policy, although the impact would be relatively lower with the revised policy in place. Besides, KRIBHCO has high contingent liabilities, primarily on account of corporate guarantees for the debt of subsidiaries KSFL and Kribhco Infrastructure Limited (KRIL). Nevertheless, ICRA takes comfort from the fact that KSFL is engaged in manufacture of urea, which is marketed by KRIBHCO, and the Shahjahanpur plant of KSFL is one of the most energy efficient gas-based plants in the country with healthy capacity utilisation levels. KRIL's debt levels are relatively smaller vis-a-vis KRIBHCO's net worth.

<sup>^</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

During FY2016, the society witnessed improvement in its profitability with operating profit rising from Rs 266 crore in FY2015 to Rs 441 crore in FY2016 while net profit increased from Rs 24 crore in FY2015 to Rs 188 crore in FY2016 due to favourable policy related to production beyond RAC, improvement in energy efficiency levels and increased dividends from OMIFCO during FY2016. Subsidy receivables outstanding at the end of FY2016 exceed the total debt which is a comforting factor as these are GoI receivables. The gearing of the company at the end of FY2016 was 0.98 times primarily due to short term borrowings to fund the subsidy receivables. The gearing adjusted for subsidy receivables at the end of FY2016 is very low. With improved profitability, the coverage ratios also improved during FY2016 as reflected by increase in interest coverage to 2.0 times in FY2016 from 1.5 times in FY2015, while NCA/Total Debt improved to 9% in FY2016 from 3% in FY2015. During FY2016, gas pooling led to material increase in gas costs for the society, while it earlier used to get primarily cheaper domestic gas. The operating profit of the society got adversely impacted as the increase in gas costs led to increase in subsidy receivables and thereby higher interest burden apart from reduction of contribution margins from sale of ammonia; however the impact was partly offset by increase in energy savings.

Going forward, the subsidy receivables of the society are expected to decrease in line with anticipated lower pooled gas prices and anticipated decline in subsidy at industry level as budgeted allocation for urea is likely to exceed subsidies during FY2017. However, due to past subsidy backlog, the subsidy receivable would continue to be at elevated level. The society is looking at improving its energy efficiency levels to meet the target of 5.5Gcal/MT for FY2019 with a capital outlay of ~Rs. 150 crore. Maintaining the healthy performance of the plant and timely completion of energy saving project would be critical for the operating profitability of the society. The society is also planning to set-up a 1.2 MMTPA complex fertilisers plant at Krishnapatnam Port which will entail an investment of ~Rs 1500 crore. The funding structure and timelines of the project are yet to be finalised. Significant debt funding for the capex leading to material deterioration in capital structure and debt protection metrics would be a key sensitivity.

#### **Entity Profile**

**Krishak Bharati Cooperative Limited (KRIBHCO)** is a Cooperative incorporated under the Multi State Cooperative Societies Act. It was set up in 1980 by the Government of India. It is owned by various co-operative societies across India. The society manufactures urea, bio-fertilisers and seeds. KRIBHCO has a urea manufacturing plant at Hazira with a capacity of 1.73MMTPA with a capacity of 2.12 MMTPA post de-bottlenecking. Besides urea, the cooperative also manufactures and trades in fertilisers, seeds and other agri-inputs (such as bio-fertilisers) and chemicals (such as ammonia). KRIBHCO has ownership interests in various ventures- KSFL (100% ownership) involved in Urea production, KRIL (100% ownership) involved in multi-modal logistic business, OMIFCO (25% ownership in a JV involving IFFCO and Oman India Fertiliser Company SAOC) manufacturing urea and GSEG (27.9% ownership) operating a 156 MW gas based power plant in Surat, Gujarat.

In FY2016, the net profit for the co-operative was Rs. 188 crore on an operating income of Rs. 7361 crore against net profit of Rs. 24 crore on an operating income of Rs. 5,678 crore in FY2015.

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