July 04, 2017

KRIBHCO Fertilizers Limited

Summary of rated Instruments

Instrument	Amount in Rs. crore[1]^	Rating action
Non-Convertible Debentures (NCD)	200	[ICRA]AA(SO)(Stable) reaffirmed
Commercial Paper Programme	600	[ICRA]A1+ reaffirmed

**Instrument details are provided in Annexure-I*

Rating action

ICRA has reaffirmed the ratings of [ICRA]AA(SO) (pronounced ICRA double A (Structured Obligation)) for the Rs 200 crore NCD programme of KRIBHCO Fertilizers Limited (KFL). The outlook on the rating is Stable. ICRA has also reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs 600 crore commercial paper programme of KFL.[2]†

Rationale

The long term rating of [ICRA]AA(SO) (Stable) for the NCD programme is based on the unconditional, irrevocable and continuing corporate guarantee provided by the parent Krishak Bharati Cooperative Limited (KRIBHCO- rated [ICRA]AA(Stable)/[ICRA]A1+). The rating also factors the payment mechanism designed to ensure timely payment on the rated NCDs, as per the terms of the transaction.

The rating for the commercial paper programme continues to factor in the strength derived by KFL being a part of the KRIBHCO group, the strong financial profile of KRIBHCO characterised by strong net worth and investments and the strategic importance of KFL for KRIBHCO. The rating also factors in the favourable demand prospects of urea in the domestic market given the high import dependence, highly competitive cost structure to ensure competitiveness against imports and access to the marketing network of KRIBHCO leading to low marketing risk for the product. The company's strong parentage and management strength have resulted in substantial financial flexibility, as reflected by its ability to raise funds at competitive rates. Almost the entire bank facilities and the NCD programme of the company are guaranteed by irrevocable and unconditional guarantees from KRIBHCO which further aids the financial flexibility of the company.

The rating also factors 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 company in recent years and impacted the capital structure and net profits to that extent. ICRA has also taken note of the deterioration the operational performance of KFL's plant during last two years (FY2016 and FY2017) due to multiple planned and un-planned shutdowns, leading to deterioration in capacity utilisation and energy consumption. The company plans to undertake around Rs 240 crore of capital expenditure (capex) to meet the energy efficiency requirement under NUP-2015 from FY2019 onwards and another Rs 200 crore of capex for setting up railway sidings at the plant over next two years. As a result of the debt funded capex and weak operating performance, KFL's profitability is expected to remain subdued in the near term.

[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

- Strong parentage, with KRIBHCO being a leading player in the fertiliser industry for over two decades and having high financial flexibility
- Unconditional and irrevocable guarantee provided by KRIBHCO for the bank facilities of KFL and the resulting strong financial flexibility; proven ability to raise funds at competitive rates due to parentage and management strength
- Favourable demand-supply scenario of urea in India, however neem coating and weak monsoon in southern parts of India resulted in decline in urea sales during FY2017
- Urea produced by KFL is sold under the "KRIBHCO" brand, and benefits from the leading market position of KRIBHCO in urea, particularly in northern and western India, with strong brand recall
- Highly competitive cost structure will protect margins against competition from imports in case of decontrol or in case of implementation of nutrient-based subsidy for urea

Credit weaknesses

- Deterioration in energy efficiency and capacity utilisation levels in recent years due to operational issues
- Vulnerability of profitability of the fertiliser sector to regulatory policies and agro-climatic conditions
- Sensitivity of its cash flows to delay in subsidy receipts from the GoI
- Modest standalone financial risk profile characterised by high gearing levels and modest coverage indicators; moreover, net profitability and return metrics are subdued, primarily due to high capital-related charges resulting from acquisition related charges and delay in the updation of subsidy policy parameters

Description of key rating drivers

The ratings derive strength from the strong parentage of KRIBHCO which translates into high financial flexibility, access to a wide marketing network with strong brand recall of KRIBHCO and parental support for banking arrangements and market instruments. The demand supply scenario of urea remains favourable as the country is still dependent for meeting nearly 20% of its demand through imports.

The capacity utilisation and energy efficiency of KFL's Shahjahanpur plant had remained healthy till FY2015. However, during last two years, there has been deterioration in the operational performance, which is expected to be subdued in the near term as well. The profitability of the company remains vulnerable to the agro-climatic conditions, regulatory changes related to the fertiliser sector and the subsidy flow from the GoI.

During FY2017, the company witnessed decline in its profitability due to loss of production and deterioration of energy efficiency parameters due to planned as well as unplanned shutdowns during the year. The operating profit declined from Rs 189 crore in FY2016 to Rs 160 crore in FY2017 while net losses widened from Rs 18 crore in FY2016 to ~Rs 23 crore in FY2017. Gearing for the company at the end of FY2017 remained elevated at 2.41 primarily due to high subsidy receivables, though gearing adjusted for subsidy receivables remains modest. At the end of FY2017, the coverage indicators remained modest while return indicators were subdued due to costs incurred during acquisition of the plant.

Going forward, the subsidy receivables for the company are expected to remain elevated due to in-adequate allocation of budget for fertiliser subsidy disbursement by GoI. Though the subsidy outstanding for the fertiliser industry had declined to nearly Rs 30,000 crore at the end of FY2017 as against nearly Rs 43,000 crore at the end of FY2016 the backlog remains significant and will continue to keep the subsidy levels elevated for the industry. The profitability of the company is expected to remain subdued in the near term as it undertakes operational improvements in the plant and the debt funded capex is expected to result in an increase in interest costs which will keep the profitability muted. Any significant debt funded capex undertaken by the company leading to deterioration of debt metrics, inability of the company to achieve the requisite energy efficiency norms and pullback in support provided by KRIBHCO will remain key rating sensitivities for the company.

Key financial indicators

	FY16	**FY17**
Operating income (Crores)	1886	1604
PAT (Crores)	-18	-23
OPBDIT/ OI (%)	10.0%	10.0%
RoCE (%)	4.9%	3.9%
Total Debt/ TNW (times)	0.93	0.94
Total Debt/ OPBDIT (times)	8.74	8.72
Interest coverage (times)	1.45	1.52
NWC/ OI (%)	55.0%	50.8%

Analytical approach: For arriving at the ratings ICRA has applied its rating methodologies as mentioned below.

Links to applicable criteria:
Corporate Credit Rating Methodology,
Rating Methodology for Fertiliser Industry

About the company
KRIBHCO Fertilizers Limited (KFL) was incorporated on December 8, 2005 pursuant to a joint venture agreement between KRIBHCO and Shyam Group to acquire the urea manufacturing facilities of Oswal Chemicals and Fertilizers Ltd. situated at Shahjahanpur (UP). Since then KRIBHCO has increased its shareholding in the company to 100% by beginning of FY2017 for a total consideration of Rs 914 crore. The name of the company has been changed from KRIBHCO Shyam Fertilisers Limited (KSFL) to KRIBHCO Fertilisers Limited (KFL) in June 2017.

The facility at Shahjahanpur is an integrated facility with a manufacturing capacity of 864,600 metric tonnes per annum (MTPA) of urea and 501,600 MTPA of ammonia. The urea produced by KFL is marketed under the brand of KRIBHCO, leading to a greater market reach. The unit also sells surplus ammonia to industrial buyers and has set up facilities to export surplus power of ~20 MW to the grid.

In FY2017, the company reported operating income of Rs 1604.1 crore and net loss of Rs.22.7 crore as against net loss of Rs. 18.2 crore on an operating income of Rs. 1,885.9 crore in FY2016.

Status of non-cooperation: Non-applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No	Instrument	Current Rating (FY2018)			Chronology of rating history for past three years				
		Type	**Amount Rated (Rs crore)**	**Date & Rating**	**Date & Rating in FY2017**		**Date & Rating in FY2016**		**Date & rating in FY2015**
				July 2017	November 2016	June 2016	August 2015	April 2015	August 2014
1	Commercial Paper	Long Term	600	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	NCD	Long Term	200	[ICRA]AA (SO) (Stable)	[ICRA]AA(SO) (Stable)	-	-	-	-

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-I
Instrument Details

ISIN	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
INE486H14615	Commercial Paper (CP)	August 1, 2016	8.60%	July 31, 2017	10	[ICRA]A1+
INE486H14771	Commercial Paper (CP)	April 11, 2017	6.56%	June 30, 2017	75	[ICRA]A1+
INE486H14771	Commercial Paper (CP)	April 12, 2017	6.60%	June 30, 2017	75	[ICRA]A1+
INE486H14771	Commercial Paper (CP)	April 17, 2017	6.68%	June 30, 2017	75	[ICRA]A1+
INE486H14789	Commercial Paper (CP)	April 20, 2017	6.60%	June 23, 2017	75	[ICRA]A1+
INE486H14797	Commercial Paper (CP)	June 9, 2017	6.67%	August 25, 2017	50	[ICRA]A1+
INE486H08013	Non-convertible debenture (NCD)-Series A	December 6, 2016	7.50%	December 6, 2019	100	[ICRA]AA(SO) (Stable)
INE486H08021	Non-convertible debenture (NCD) Series-B	December 6, 2016	7.50%	December 6, 2019	100	[ICRA]AA(SO) (Stable)

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