Greenstar Fertilizers Limited

April 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund based Facilities	400.00	125.00	[ICRA]BBB- (Stable); Reaffirmed
Long-term, Unallocated Facilities	0.00	275.00	[ICRA]BBB- (Stable); Reaffirmed
Total	**400.00**	**400.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmedthe long -term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 400 crore[1]Fund-based facilities and unallocated facilities of Greenstar Fertilizers Limited. (GFL/'the company')[2]. The outlook on the rating is 'Stable'.

Rationale

The rating reaffirmation factors in the longstanding experience of the Ashwin Muthiah group in fertiliser manufacturing and marketingthrough SPIC (Southern Petrochemicals Industries Corporation) and GFL. The rating also considers GFL's position as a significant player in the South Indian phosphatic fertiliser market with a leading market share in Tamil Nadu. ICRA also notes the favorable credit terms on sourcing of key raw materials from Wilson International trading Pte. Ltd. (Wilson) which is instrumental in managing the working capital requirements.Moreover, the company continues to receivefinancial support from the holding company viz A M International Holdings Private Limited (AMIH) in the form of SBLC backed working capital borrowings, ECBs and Masala bondsissued during FY2018 for meeting working capital andcapex requirements. The rating also considers the positive outlook for the sector for the upcoming kharif season given the expectation of a normal monsoon and the recent increase in subsidy for NPK products under nutrient based subsidy (NBS) scheme. ICRA also notes that the capacity addition in own phosphoric acid production would result in improvement in cost structure due to increased backward integration; thisalso would have the effect of reducing the dependency on Sterlite's copper smelting plant for phosphoric acid procurement.

The rating continues to remain constrained by the company's sectoral concentration to the phosphatic fertiliser segment with the demand for DAP & Complex being susceptible to agro-climactic conditionsand 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 indictors. However, ICRA notes the moderate improvement in revenues and net profits in FY2017 which has continued in FY2018. The rating also considers thesusceptibility of operating marginsto variation in 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 moderately high working capital intensity following the increase in trade and subsidy receivables

[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*

during FY2017 and 9M FY2018; however, ICRA notes that the higher subsidies received during Q4 FY2018 has moderated the working capital intensity to an extent. The rating also considers the low financial flexibility owing to the weak credit history of SPIC Ltd, the key entity in the promoter group.

Outlook: Stable

ICRA believes GFL will continue to benefit from the extensive experience of the group in the fertiliser sector as well as financial support and credit period extended by parent company - AMIH and other associate companies. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected due to major capital expenditure, or stretchingof the working capital cycle weakening liquidity.

Key rating drivers

Credit strengths

Established position as one of the largest manufacturers of DAP and Complex fertilizers in South India–GFL is a part of Ashwin Muthiah Group of companies which has five decades of extensive experience in fertilisers manufacturing and marketing. The company’s fertilisers enjoy a strong brand image and dominant market position in South India, especially in the state of Tamil Nadu. GFL inherited SPIC’s branding and marketing network which hasdiversified across India over the five decades.In addition, GFL also markets imported fertilisers and other traded products mainly in North India along with the various industrial products which are by products produced during manufacturing process of major fertiliser products.

Moderate cost structure due to the integrated production process – Key intermediate raw materials required for the production of DAP and Complex are phosphoric acid and sulphuric acid. GFL also manufactures these key intermediate raw materials and it has in house capacity of 0.12 Mn MT of phosphoric acid (till FY2017) and 0.27 Mn MT of sulphuric acid. The company meets most of its sulphuric acid requirements through in house production. In FY2018, company further increased the capacity for phosphoric acid production by 0.10 Mn MT. Increased capacity would further reduce the dependence on external raw material sourcing and will significantly decrease the cost of procurement.

Improved capacity utilisation over the past few years – The company has an in-house capacity to produce 0.6 million (Mn) metric tonne (MT) of DAP and complex 20:20 fertilisers.Also, to manage the lower internal production ofPhosphoric Acid, the GFL entered into a tolling arrangement with Sterlite (which has a proximate plant) to procure Phosphoric Acid. This has resulted in improvement of capacity utilisation which subsequently increased to ~90% during FY2017 (PY ~85%) compared 60-70% in the past which has resulted in high sales growth. Accordingly, GFL’s operating income witnessed healthy growth at CAGR 13.3% during FY2015-FY2017.

Funding support extended by AMIH Group companies providesfinancial flexibility – GFL enjoys strong financial support from its parent AMIH Group companies. Working capital borrowings are SBLC based and availed against the 100-105% cash margin deposited by AMIH which has resulted in favorable interest rate for the company. AMIH has recently subscribed to ~USD 50 Mn Masala bond (out of which ~USD 20 Mn was disbursed during FY2018) of GFL for meeting its capex plans, working capital requirement, and repayment of other debt obligations. AMIH has also extended external commercial borrowing (ECB) at very low interest rates. GFL also procures key raw materials through Wilson and other AMIH group trading entities and obtains a favorable credit period.These have substantially reduced the external funding requirementsdespite the high working capital intensity.

Normal monsoon and revision in subsidy rates for Phosphate likely to aid volume growth- Given the forecast of a normal monsoon, the sowing level in the upcoming kharif seasonis expected to witness healthy growth YoY which should promote healthy fertiliser off-take during the season. The Cabinet Committee on Economic Affairs (CCEA) has approved an increase in the nutrient-based subsidy (NBS) rates for phosphate and sulphur for FY2019. With revision in NBS rates, the subsidy for DAP and various grades of complex fertilisers are expected to increase which will be beneficial for non-urea fertilisers manufacturers. However, non-urea fertiliser demand remains relatively more volatile as the preference for urea is driven by the price differential.

Credit challenges

Sensitivity of profitability to selling expenses, raw materials prices, regulatory policies, and agro-climactic conditions– GFL's profitability remains susceptible to agro-climactic conditions, regulatory policies, and adverse movement in raw material prices which had impacted company's profitability in the past. Although the company witnessed healthy revenue growth during FY2017, operating profit margin (OPM) remained stagnant at 3.5% in FY2017 compared to OPM in FY2016 owing to high freight cost and discount to customers mitigating the positive impact of lower raw material prices. However, owing to lower interest and finance expenses, net profit margin witnessed moderate improvement from 0.5% in FY2016 to 0.8% in FY2017. However, company has taken up various measures to improve the cost structure – specifically, enhanced ammonia storage facility which would result in freight cost savings due to handling of higher parcel sizes. This coupled with the higher internal phosphoric acid production should result in improvement in profitability over the medium term.

High working capital intensity due to higher debtors and subsidy receivables – The company's working capital requirements have traditionally been very high due to higher debtors owing to credit period offered to dealers and the long delays in the realisation of subsidies from the Government. Inventory levels had also increased significantly in FY2017 due to increased productionand the relatively high channel inventory. Owing to high working capital intensity, GFLhadresorted to increased borrowings and creditor funding from its group entities.

Financial profile characterised by highly leveraged capital structure and weakened coverage indicators- GFL has low financial flexibility due to past default history of SPIC from which the phosphates business was sold off to GFL as part of the corporate debt restructuring exercise. However, the company has received funding support from its parent / group companies in the form ofSBLC based working capital borrowingsfrom banks. Recently company has availed funding of ~20 Mn (Rs 132.7 crore) through the masala bond route from AMIH in addition to the earlier allocated ECBs. However, improvement in net worth remained modest owing to weak profitability aiding to lower accretion to reserves. Accordingly, company's gearing remained very high at 4.2 times as on March 2017. Also, owing to very high creditors, outstanding liabilities have increased substantially resulting in a TOL/TNW of 14.3 times as on March 2017. The coverage indicators also continue to remain weak on account of the modest profitability and high debt levels; however, ICRA draws the comfort from the fact that most of the borrowings and payables pertain to AMIH Group companies.

Large import requirements expose the company to foreign exchange fluctuation risks– Company procures key raw materials rock phosphate, ammonia, and sulphur through Group companies from the manufacturers in the Middle Eastern countries. High dependence on imports exposes GFL to foreign exchange fluctuation risks.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Fertilisers Industry

About the company:

GFL came into existence by hiving-off the erstwhile phosphatic fertiliser division from Southern Petrochemical Industries Corporation Limited (SPIC) in October 2011. This facility, which was established in tandem with the urea manufacturing plant, was sold to GFL for a consideration of Rs. 306 crore on a slump-sale basis with the transfer of the entire assets of the erstwhile division. As per the Business Transfer Agreement, the promoters paid the entire consideration by way of equity and loans in FY 2012 and commenced operations. The company is currently held by the various entities controlled by Mr. Ashwin Muthiah.

The company manufactures Di Ammonium Phosphate (DAP) and NPK Complex in its Tuticorin manufacturing plant and markets it across India. In addition, GFL also markets various industrial products which are produced as by-products as well imported fertilisers and other 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.

In FY2017, the company reported a net profit of Rs. 16.4 crore on an operating income of Rs. 2100.8 crore, as compared to a net profit of Rs. 9.6 crore on an operating income of Rs. 1972.8 crore in the previous year.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	1972.8	2100.8
PAT (Rs. crore)	9.6	16.4
OPBDIT/ OI (%)	3.5%	3.5%
RoCE (%)	8.9%	10.0%
Total Debt/ TNW (times)	4.2	4.2
Total Debt/ OPBDIT (times)	8.9	9.0
Interest coverage (times)	1.1	1.3
NWC/ OI (%)	21.2%	19.7%

Source: Annual Report FY2017– Greenstar Fertilizers Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date &Rating April 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 Feb 2017	Date & Rating in FY2016 Dec 2015	Date & Rating in FY2015 Jan 2015
1	Fund-based facilities	Long-Term	125.00	**125.00**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BB+ (stable)**
2	Long-term, Unallocated	Long-Term	275.00	**275.00**	**[ICRA]BBB- (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-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based facilities	-	-	-	125.00	[ICRA]BBB- (Stable)
NA	Long-term, Unallocated	-	-	-	275.00	[ICRA]BBB- (Stable)

Source: Greenstar Fertilizers Limited

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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.

For more information, visit www.icra.in

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