

Indian Potash Limited

| Instrument | Amount | Rating Action |
|--------------------------------------|-------------|-----------------------------|
| | In Rs Crore | November 2015 |
| Long Term Fund Based Facilities | 1100.00 | [ICRA]A+ (Stable); assigned |
| Short Term Non Fund Based Facilities | 6950.00 | [ICRA]A1+; assigned |
| Short term, Commercial Paper | 300.00 | [ICRA]A1+; outstanding |

ICRA has assigned the long term rating of [ICRA]A+ (pronounced ICRA A plus) to the Rs. 1100 crore^{*} fund based working capital facilities of Indian Potash Limited (IPL/ 'the company')[†]. ICRA has also assigned the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs 6950.00 crore non fund based bank facilities of IPL. The outlook on the long term rating is 'Stable'.

ICRA also has an outstanding short term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 300.00 crore Commercial Paper (CP) Programme of the company.

The assigned ratings reflect IPL's leading market position in the trading of the three major fertilizers, urea, di-ammonium phosphate (DAP) and muriate of potash (MOP), its strategic importance to Gol as one of the state trading enterprises for canalising urea imports and as the largest importer of MOP, its favourable competitive position arising from its longstanding supplier relationships and a wide pan-India distribution network, and the scale and efficiency of its handling operations. The company derives a major portion of its revenues (36% in FY 2015) and profit before tax (PBT) (46% in FY 2015) from MOP, in which it is the market leader with a 55% market share. IPL also has the second largest market share in DAP in India. The company is one of the three canalising agencies (apart from MMTc Limited and State Trading Corporation of India) for import of urea on behalf of Government of India (Gol). Although urea handling is not very profitable, IPL earns service charges for urea imports on Gol account through canalisation and high sea sales to complex fertiliser manufacturers, which add to its profits. With over five decades of expertise in fertiliser trading operations, the company has longstanding relationships with all the major international suppliers and extracts significant concessions in pricing, as compared to its competitors, owing to the large order volumes. The company also has one of the most extensive fertilizer distribution network in India, covering more than 90% of the country's villages, which is a strength considering the regional nature and freight intensity of fertilizer distribution.

The ratings also draw comfort from the favourable prospects for fertilizer imports, given the lack of self sufficiency in India, besides the company's strong parentage and comfortable liquidity, characterised by large cash balances and high financial flexibility. Notwithstanding a moderate reduction witnessed in the past two years, IPL's overall sales and profits have grown steadily over the past decade following an increase in trading volumes, which in turn has been enabled by larger imports necessitated by an increasing shortfall between fertiliser demand and indigenous production. The company also enjoys large fund/non-fund based limits with lenders and utilises the buyer's credit facilities at competitive rates to import fertilisers thereby providing significant cost savings. The company has large cash balances (Rs 1106 crore as of March 2015) and also holds special fertiliser bonds issued by Gol. These provide substantial financial flexibility to the company with regards to managing its working capital.

The above mentioned ratings strengths are partially offset by the large volatility witnessed in the revenues and profits over the past few years owing to the subdued demand for some of the traded products due to adverse market conditions as well as the heavy exchange rate fluctuations. Post FY 2012, due to the implementation of the Nutrient Based Subsidy scheme, the demand for the non urea fertilisers has fallen, owing to the large price differential with urea, leading to sizeable revenue de-

* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications



growth in the past two years. Also, the adverse agro-climatic conditions and the resultant piling up of channel inventory further moderated the demand. The operating profitability has also been impacted in the recent past due to large sales discounts provided to the dealers in the wake of high systemic inventory. Though the interest expenses are typically low for the company, increase in subsidy burden has increased the overall interest costs. Besides, the net margins have been low in some of the years owing to the large impact of currency fluctuations as the company does not possess any natural hedge against its imports. The forex impact on net margins was especially severe in FY 2013 and FY 2014 due to the steep depreciation in the value of the rupee over a short period of time.

The ratings are also constrained by the relatively high working capital intensity of operations due to the sizeable subsidy/trade receivables and inventory levels. The Company receives the subsidy payments (initial 85% and the final 15% after certification from States) with a large time lag and hence the overall receivables position is stretched. Though the absolute value of the receivables has declined due to the revenue de-growth and implementation of the NBS scheme, the debtor days continue to be high (in terms of days of OI). The inventory levels have also remained high owing to the depressed market demand and piling up of channel inventory. With low credit availed by the company, the working capital intensity has increased necessitating relatively high bank borrowings.

The ratings also consider the low return indicators witnessed over the past few years owing to the large losses posted by the sugar division; and, the company's low capitalisation levels in relation to its turnover. Traditionally, IPL enjoyed healthy returns as the fertiliser trading operations were moderately profitable with a low asset base. Nevertheless, as a diversification initiative the company ventured into cattle feed manufacturing, dairy products distribution and acquired five sugar mills in Uttar Pradesh. Though the smaller cattle feed and dairy divisions are profitable, the sugar division continues to post large losses owing to the very low sugar prices and the high cane prices paid to the farmers (as stipulated by the UP Govt). With large amount of capital invested in this division, the overall return indicators of the company have remained depressed post FY 2011. Any turnaround in the performance of the sugar division and ability of the company to maintain its margins given the fluctuations in commodity prices, working capital cycle and forex volatility would be the key rating sensitivities.

Company Profile

Indian Potash Limited (IPL) was incorporated as Indian Potash Supply Agency (IPSA) in 1955 for import, handling, marketing and promotion of Potash fertilisers. The company was initially promoted by private sector companies such as EID Parry, Rallis India and Shaw Wallace. On the recommendations of National Commission on Agriculture, the equity base of the company was expanded with majority shareholding with cooperatives and Public Sector Fertilizer companies in 1970. Following this, IPSA was converted into IPL. Currently the co-operative and public sectors own 70.21% and 12.68% respectively in IPL, with IFFCO being the largest shareholder with 33.98 % stake. The company is involved in the import and trading of Muriate of Potash (MOP), urea, Di ammonium Phosphate (DAP), and sulphate of potash (SOP), besides indigenously produced fertilizers such as Single Super Phosphate (SSP) and other products like gypsum etc. The company's distribution network reaches 6 lakh villages in India out of a total of 6.5 lakh villages, enabling 90% coverage throughout India. IPL has its own warehousing facility at all major ports and outsourced warehousing facilities throughout India.

IPL is also into production of cattle feed and milk processing with a plant in UP. In milk processing, the company has entered into an agreement with Mother Dairy, a leading supplier of sachet milk in National Capital region (NCR). In 2011, the company also bought five sugar mills in Uttar Pradesh on a slump sale basis and has been operating the plants since. These other divisions contribute to 2% of overall revenues of the company but form a major part (38% as on March 31, 2015) of the fixed asset base.



Recent Results

During FY2015, the company reported operating income of Rs. 15542.4 crore (as against Rs. 14839.6 crore during FY2014) and profit after tax of Rs. 211.2 crore (as against Rs. 107.4 crore during FY2014). During H1 FY16 (provisional unaudited financials), the company reported operating income of Rs. 8207.5 crore and profit before tax of Rs. 92.4 crore.

November 2015

For further details, please contact:

Analyst Contacts:

Mr. K. Ravichandran, (Tel. No. +91-44-45964301)
ravichandran@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: 9821086490

Email: shivakumar@icraindia.com

1802, 18th Floor, Tower 3,
Indiabulls Finance Centre,
Senapati Bapat Marg,
Elphinstone, Mumbai 400013,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: 989986490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-
79-25569231

Pune**Mr. L. Shivakumar**

Mobile: 989986490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills
Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500