

September 11, 2020

Indian Farmers Fertiliser Cooperative Limited (IFFCO): Rating assigned to CP programme

Summary of rating action

Instrument*	Previous rate amount (Rs. Crore)	Current rated amount (Rs. Crore)	Rating Action
Term loans	1,389.00	1,389.00	[ICRA]AA (Stable); Outstanding
Long term fund based-CC limit	5,500.00	5,500.00	[ICRA]AA (Stable); Outstanding
Short term non fund based	5,350.00	5,350.00	[ICRA]A1+; Outstanding
Short term-fund based	15,605.00	15,605.00	[ICRA]A1+; Outstanding
Short Term-Unallocated	156.00	156.00	[ICRA]A1+; Outstanding
Commercial Paper	0.00	156.00	[ICRA]A1+; assigned
Total	28,000.00	28,156.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the leadership position of the society in the Indian fertiliser industry reflected by the market share of 26% in urea segment and 22% in the Phosphatic (P&K) fertiliser segment in FY2020 and the largest fertiliser manufacturing setup in the country in both urea and P&K fertiliser segment, highly efficient operations in both urea and P&K segment, large investment portfolio yielding large dividend and interest income supporting profitability besides which several investments made ensure raw material security, large marketing setup and high financial flexibility with ability to raise working capital borrowings at highly competitive rates. The society has some of the most efficient urea plants in the country with energy consumption ranging from 5.072 Gcal/MT to 5.823 Gcal/MT and significantly below the pre-set norms specified under New Urea policy-2015 (NUP-2015) which aid cash generation through energy savings. Additionally, the society is also able to earn healthy profitability on production beyond the re-assessed capacity for urea operations. For the P&K segment, the society procures, phosphoric acid from Senegal (Industries Chimiques du (ICS)) which is exempted from Basic custom Duty of 5% providing cost advantage to IFFCO. Additionally, the backward integration in production of phosphoric acid at the Paradip plant provides cost advantage. Over the years, the society has built a large investment portfolio with Oman-India Fertiliser Company (OMIFCO with 25% ownership), Jordan India Fertiliser Company (JIFCO with 27% ownership) and IFFCO-Tokio General Insurance Limited (51% ownership) being the major investments. The society receives healthy dividends from its investments particularly OMIFCO, where the dividends are expected to rise significantly from FY2021 onwards. The society also has a large portfolio of tax free and redeemable bonds which provide healthy interest income. Some of the investments e.g. JIFCO and ICS provide raw material security as the society has entered into long term offtake agreements with these entities to supply phosphoric acid and rock phosphate. The ratings also factor in the large marketing network of the society with nearly 35,000 farmer cooperatives being part of IFFCO which provides pan-India access to farmers. The company posted an operating profit of Rs. 2397.5 crore in FY2020 as against Rs. 2030.7 crore in FY2019 driven by higher product sales and improved energy efficiency of its urea plants and healthy contribution on phosphatic sales. The net profit of the company increased to Rs. 1004.6 crore in FY2020 as against Rs. 841.6 crore in FY2019 inline with the higher operating profit. The leverage of the company (Total Debt/OPBDITA) continued to remain elevated at 6.2x at the end of FY2020 slightly better than 7.1x at the end of FY2019 driven by higher operating profit while debt levels increased marginally to Rs. 14,844.6 crore at the end of FY2020 as against Rs. 14,407.2 crore at the end of FY2019. The working capital borrowings of the society remain elevated due to the delay in the subsidy receipts from the Gol.

The ratings of the society are constrained by the vulnerability of the profitability to agro-climatic risks, regulatory policies governing the fertiliser sector and the moderate capitalisation and coverage indicators given the large working capital borrowings to fund the delays in the subsidy receivables from the Gol.

ICRA believes the credit profile of the society to remain stable in the near to medium term driven by its market leadership position, healthy cash accruals generated from operations and stable income from investment portfolio.

Key rating drivers and their description

Credit strengths

Largest player in the domestic fertiliser industry with 26% market share in urea and 22% in DAP/NPK segment: IFFCO is the largest domestic manufacturer of urea and P&K fertilisers with nearly 26% market share in urea (including imported urea) and 22% market share in the P&K fertiliser segment. The company has the largest urea manufacturing capacity in India with 4.24 MMT capacity spread over 3 plants at Kalol, Phulpur and Aonla and the largest P&K fertilizer manufacturing capacity in India with ~4.3 MMT capacity spread over two plants at Kandla and Paradeep. Thus, it is a dominant player in the domestic fertiliser industry.

Healthy operational efficiency across urea and DAP/NPK plants: The plants of the society have maintained high operational efficiency with healthy capacity utilisation levels for both urea and P&K fertilisers and energy efficient operations in the urea plants. All the urea plants have their energy consumption well below their pre-set norms under NUP-2015 which results in large energy savings and supports the operating profitability of the society. Highly energy efficient plants keep urea production against imports competitive aiding production beyond re-assessed capacity. Among the P&K plants, the Kandla plant remains dependent on imported phosphoric acid while Paradeep plant has a phosphoric acid manufacturing plant, which results in backward integration and higher operating margins for the society. With stable phosphoric acid prices, the contribution margin from DAP/NPK sales is expected to remain stable and thus the profitability from this segment should remain healthy in the current fiscal as well.

Large portfolio of investments in profitable ventures providing dividends and interest income: IFFCO has a sizeable portfolio of investments, which has been built-up over the years. The book value of investments was around Rs. 2214.4 crore including strategic investments in various JVs/Subsidiaries and Rs. 1729.6 crore of investments in bonds. The main investments include 25% ownership in Oman India Fertiliser Company (OMIFCO), 52% ownership in Jordan India Fertiliser company (JIFCO) and 51% ownership in IFFCO Tokio General Insurance Limited. The society derives significant income from these investments e.g. OMIFCO paid dividend of ~Rs. 97 crore in FY2020 and Rs. 120 crore in FY2019. The society also receives dividends to the tune of Rs. 18-20 crore every year from its subsidiaries. The market value of the investments is however, significantly higher than book value. These assets add significant financial flexibility to the society as these assets can be monetised if the need arises. The society also has a large portfolio of tax free and redeemable bonds from which it derives healthy interest income, thus aiding cash generation.

Well entrenched marketing network through cooperatives aiding farmer reach and marketing ability of the society: Nearly 35,000 cooperatives hold ownership in the society and the society markets its products through these cooperatives. The society also has a good brand recall amongst farmers as it carries out many farmer engagement activities and provides other value-added services through its subsidiaries like Kissan Sanchar etc. With a well-entrenched network, IFFCO has been able to garner a healthy market share across various states of India and continues to be leading fertiliser company in the country.

High financial flexibility characterised by ability to raise large short-term borrowings at competitive rates: The society has high financial flexibility with ability to raise funds from banking system at very short notice and at competitive rates. Low long-term liabilities vis-à-vis networth and a large investment portfolio, large cash balances and stable dividend income from OMIFCO add to its financial flexibility.

Credit challenges

Vulnerability of profitability to regulatory policies of fertiliser sector and agro-climatic risks: The profitability of the sector remains vulnerable to the regulatory policies governing the sector. The under-budgeting of subsidies have been a drain on the profitability of the sector for a long time. Going forward additional allocation of subsidies from the GoI to clear the subsidy backlog can go a long way in improving the fundamentals of the sector. However, issues like subsidy backlog and non-payment of revised fixed costs under Modified NPS-III which have been notified recently, continue to impact the financial performance of the sector. The performance of the sector also depends on the performance of monsoon as it directly impacts the performance of the agriculture sector, the end user of fertiliser.

Moderate coverage and capitalisation indicators given the working capital-intensive nature of operations: The capitalisation and coverage indicators of the society remain moderate owing to delay in subsidy receipts from GoI resulting in elevated working capital borrowings and associated large interest costs.

Liquidity position: Strong

IFFCO's liquidity is supported by nearly Rs. 1961 crore of cash on the books at the end of FY2020 and average bank limit utilisation of 64% for last 12 months ending June 2020. With cash accruals of ~Rs. 1200-1300 crore per annum and a portfolio of redeemable tax-free bonds of Rs. 1729.6 crore and no major capex plans in the near term, IFFCO's liquidity position is expected to remain strong. The liquidity position is also supported by the ability of the company to raise working capital debt at highly competitive rates.

Rating sensitivities

Positive Trigger- Rating may be upgraded in a scenario of significant improvement in the working capital cycle of the society primarily through improvement in the subsidy receivables from the GoI; Significant reduction in the debt through monetisation of the investment in JVs/Subsidiaries

Negative Trigger- a) Material cash outflow due to large acquisition/capex resulting in deterioration in the credit metrics
b) Material deterioration in the working capital cycle driven by delay in the subsidy receivables from GoI

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone financials of the company

About the company

Indian Farmers Fertiliser Cooperative Limited (IFFCO) was setup in November 1967 and is now one of the largest cooperative bodies and is completely owned by nearly 32,300 cooperative societies across India. The society is engaged

in manufacturing, import and marketing of fertilisers primarily urea, DAP and complex fertilisers. The society also sells other products like water-soluble fertilisers, bentonite sulphur, bio-fertilisers, plant growth promoters etc. However, the contribution of these products to revenue and profitability remains small compared to urea and P&K fertilisers. The society has 3 manufacturing facilities for urea at Kalol, Phulpur (two trains P-1 & P-2) and Aonla (two trains A-1 & A-2) with a cumulative capacity of 4.24MTPA which makes it the largest urea manufacturer India with a capacity share of nearly 22%. The company is also engaged in manufacturing of DAP and complex fertilisers and has two plants at Kandla and Paradeep with cumulative capacity of 4.3 MTPA. The company had nearly 26% market share in urea segment including imported urea and 22% market share in the P&K fertiliser segment in FY2020. The company derived nearly 36% of its revenues from manufactured urea, 44% from the manufactured phosphatic fertilisers and remaining 20% from trading of urea, phosphatic fertilisers and indigenous seeds and chemicals in FY2020. In 2019, IFFCO retained its No 1 position in Fertilisers and Agro-Chemicals in Fortune 500 companies in India, apart from securing the 58th position in the list of Fortune 500 companies in India. Further, in 2020, the Managing Director & CEO of the society “Dr U S Awasthi” was ranked 40 in the top 50 influential leaders in India by Fame India magazine.

IFFCO has a sizeable investment portfolio of Rs. 2214.4 crore (end of FY2020) with investments in companies located in India as well as abroad. The investments include IFFCO-Tokio General insurance, Oman India fertiliser company SAOC (OMIFCO), Jordan India fertiliser Company LLC(JIFCO) etc. The company also had a sizeable portfolio of tax-free bonds/NCDs to the tune of Rs. 1729.6 crore and cash and bank balances of Rs. 1961.9 crore at the end of FY2020.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	27851.7	29412.4
PAT (Rs. crore)	841.6	1004.6
OPBDIT/OI (%)	7%	8%
RoCE (%)	9.74%	9.45%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.8
Total Debt/OPBDIT (times)	7.1	6.2
Interest Coverage (times)	2.0	2.2
DSCR	1.7	1.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating		FY2020	FY2019	FY2018
					11-September-2020	10-August 2020			
1	Term loans	Long Term	1,389.0	1350.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
2	Long term fund based-CC limit	Long Term	5,500.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-
3	Short term non fund based	Short Term	5,350.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-
4	Short term-fund based	Short Term	15,605.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-
5	Short Term-Unallocated	Short Term	156.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-
6	Commercial Paper program	Short Term	156.0	-	[ICRA]A1+	-			

Amount in Rs. crore

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

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loans	March 2017	NA	June 2022	750.0	[ICRA]AA (Stable)
-	Term Loans	March 2020	NA	June 2025	600.0	[ICRA]AA (Stable)
-	Proposed Term loan	-	-	-	39.0	[ICRA]AA (Stable)
-	Long term fund based-CC limit	-	-	-	5,500.0	[ICRA]AA (Stable)
-	Short Term- Unallocated	-	-	-	156.0	[ICRA]A1+
-	Short term non fund based	-	-	-	5,350.0	[ICRA]A1+
-	Short term-fund based	-	-	-	15,605.0	[ICRA]A1+
-	Commercial Paper programme	-	-	-	156.0	[ICRA]A1+

Source: IFFCO

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

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