

September 28, 2020

Mosaic India Private Limited (MIPL): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term Fund Based Limits	775.0	775.0	[ICRA]A1+; reaffirmed
Commercial Paper programme	200.0	200.0	[ICRA]A1+; reaffirmed
Total	975.0	975.0	

*Instrument details are provided in Annexure-1

Rationale

The rating takes into account the strong parentage of the company and the demonstrated business and financial support from the parent, The Mosaic Company (Mosaic; rated Baa3 (Negative) by Moody's Investor Service (Moody's)). The parent support is expected to continue in the future as well given the strategic importance of India as a market for Di-ammonium Phosphate (DAP) and high import dependence for the same. Mosaic being one of the largest P&K manufacturers in the world in terms of capacity is a major exporter to India, a large part of which is facilitated through MIPL. Due to the ability of MIPL to get extended credit periods from Mosaic, the dependency of the company on debt has been limited, resulting in healthy credit metrics. The rating also factors in the growth in market share of the company for Muriate of Potash (MOP) and DAP in FY2020. MOP sales volumes have witnessed healthy growth in FY2020 giving the company a healthy market share of ~8% in the country within four years of getting licence to sell MOP in India. The market share for MOP has further increased to 12% in 5M FY2021.

ICRA believes that the long-term domestic demand prospects for DAP and MOP remain favourable, given the deficiency of phosphatic and phosphorous nutrient in Indian soil. The rating however considers the vulnerability of profitability of the fertiliser sector, particularly the P&K segment, to regulatory policies and agro-climatic conditions, and sensitivity of fertiliser cash flows to delay in subsidy receipts from the Government of India (GoI). The rating also factors in the expectation of healthy profitability in the current fiscal i.e. FY2021 driven by robust demand for fertilisers and healthy contribution levels for DAP. The rating also factors in the vulnerability of profitability to foreign exchange fluctuations of the company, although the company has a hedging policy in place. Working capital intensity remains moderate despite delays in subsidy due to support from the parent company in terms of extended credit period at market interest rates.

The company's operating profitability remains modest due to the trading nature of operations and volatility in the exchange rates resulting in loss on foreign exchange losses. Nevertheless, the liquidity position of the company remains healthy, given the high financial flexibility due to the demonstrated support from the parent in the form of extended credit periods at market linked interest rates and large unutilised bank limits backed by corporate guarantee/letter of comfort from the parent. Furthermore, the strategic importance of MIPL to Mosaic also aids the overall credit risk profile of the company.

Key rating drivers and their description

Credit strengths

Strong parentage of The Mosaic Company, US: MIPL is a wholly owned subsidiary of The Mosaic Company US (Mosaic; rated Baa3 (Negative) by Moody's) and receives significant support in the form of extended credit periods and assured

supply of DAP and MOP for sale in India. Mosaic has also provided corporate guarantee and letter of comfort backing the entire bank lines of the company.

Strategic importance of MIPL to Mosaic as India is a leading market for DAP and has high import dependence: Mosaic is one of the largest manufacturers of DAP and MOP globally and India is an important market given the size of demand and significant import reliance of the country to meet DAP demand. India imports nearly 50% of its annual demand for DAP as the domestic production is insufficient to meet the domestic demand. Thus, MIPL is strategically important for Mosaic to keep its market share in India.

Favourable long-term domestic demand prospects for DAP and MOP given the scarcity of Phosphorous ('P') and Potash ('K') in Indian soil; complete dependence on imports for MOP: Demand prospects for DAP and MOP remain favourable in India given the nutrient imbalance in Indian soil. The N:P:K ratio in FY2019 was 6.6:2.6:1 as against an ideal ratio of N:P:K of 4:2:1 owing to significant price differential between urea and non-urea fertilisers. India is entirely reliant on imports to meet its demand for MOP given non-availability of domestic sources.

Credit challenges

Vulnerability of profitability to agro-climatic and regulatory risks pertaining to the fertiliser industry and imports in particular: The profitability of the fertiliser sector remains vulnerable to the regulatory policies set forth by the Govt. Agro-climatic risks like weak monsoon also impact the profitability of the fertiliser sector as the industry has to offer higher discounts given the stressed condition of the end users.

High volatility in historical key credit metrics due to trading nature of business and high volatility of profits of P&K segment to economic and regulatory factors: MIPL's financial performance has remained volatile over the past few years given the volatility witnessed in the profitability of P&K fertilisers in India. The volatility has also been a result of the currency fluctuations which have kept the profitability subdued in recent years due to foreign exchange losses. The net profit of the company as per provisional results moderated to Rs. 26.0 crore in FY2020 as against Rs. 47.3 crore in FY2019. The profitability was impacted by the moderation in the contribution on the DAP in H1 FY2020 and significant volatility in the currency which resulted in a foreign exchange impact of ~Rs. 67 crore in FY2020. The debt levels however came down as the credit period availed from the parent increased and the inventory levels also moderated.

Vulnerability of profitability to foreign exchange risk and commodity price risk: MIPL is a trading player and relies on imports from its parent for procurement of DAP and MOP for sale in India. As a result, the company is exposed to foreign exchange risk. The risk though is partially mitigated given the policy of the company to hedge majority of its foreign exchange exposure using plain vanilla forwards. The company has recorded foreign exchange losses in recent years due to volatility in currency in recent years.

Liquidity position: Adequate

MIPL's liquidity position remains healthy characterised by availability of unutilized limits. With the support from parent in the form of extended credit period with market linked interest rates available to the company, the liquidity position remains adequate.

Rating sensitivities

Positive Trigger- NA

Negative Trigger- Negative pressure on MIPL's rating could arise in case the credit profile of the parent The Mosaic Company weakens or the linkage between the parent and MIPL weakens, or if there is a deterioration in MIPL's performance

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector
Parent/Group Support	Parent Company: The Mosaic Inc (USA) The ratings factor in the support from the parent in the form of 30 days interest free credit period offered to MIPL which is extendable upto 365 days with interest rate linked to LIBOR+spread and the corporate guarantees and comfort letters backing the bank lines.
Consolidation/Standalone	The ratings are based on the standalone financials of Mosaic India Private Limited (MIPL)

About the company

Mosaic India Pvt. Limited (MIPL) is a wholly owned subsidiary of The Mosaic Company (“Mosaic”, rated Baa3 [Stable] by Moody’s). MIPL is involved in the business of trading and marketing of fertilisers, primarily Di-ammonium-Phosphate (DAP) and Muriate of Potash (MOP) in India. Mosaic is the world's leading producer of concentrated phosphate and potash in terms of capacity. Mosaic was formed in October 2004 following merger of Cargill Crop Nutrition and IMC Global. In January 2011, Cargill Inc. divested its 64.3% stake in Mosaic through a demerger process, resulting in Mosaic becoming a widely held company.

Key financial indicators (Audited)

	FY2019	FY2020 (Prov.)
Operating Income (Rs. crore)	2120.9	2518.0
PAT (Rs. crore)	47.3	26.3
OPBDIT/OI (%)	3.7%	2.0%
RoCE (%)	12.3%	8.6%
Total Outside Liabilities/Tangible Net Worth (times)	4.5	3.7
Total Debt/OPBDIT (times)	4.5	5.1
Interest Coverage (times)	6.6	3.2
DSCR	4.4	2.9

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
					28-Sep-2020	16-Aug-2019	26-Jul-2018	19-Jun-2017
1	Fund Based	Short Term	775.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Commercial Paper	Short Term	200.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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

I IN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Short term-Fund based	-	-	-	775.00	[ICRA]A1+
-	Commercial paper	-	-	7-365	200.00	[ICRA]A1+

Source: KRIBHCO

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	-	-

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