February 24, 2021

Rashtriya Chemicals and Fertilizers Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Fund based/ Cash Credit	600.00	600.00	[ICRA]AA- (Positive); Reaffirmed and outlook revised to Positive from Stable
Long-Term – Fund Based Term Loan	4500.00	4500.00	[ICRA]AA- (Positive); Reaffirmed and outlook revised to Positive from Stable
Long-Term – Non-Convertible Debentures	500.00	500.00	[ICRA]AA- (Positive); Reaffirmed and outlook revised to Positive from Stable
Commercial Paper	3000.00	3000.00	[ICRA]A1+; reaffirmed
Total	**8600.00**	**8600.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to 'Positive' factors in the disbursal of additional subsidy announced under the Atma Nirbhar Bharat Package 3.0 announced for the fertilizer sector which is expected to reduce the subsidy arrears of RCF which would, in turn, lead to decline in short-term borrowings and interest costs and consequently, strengthen the debt coverage metrics. RCF has already received a part of the additional subsidy while the remaining is expected to be received within FY2021. Further, post approval of Modified NPS-III by CCEA, RCF recognised one-time payment of ~ Rs. 460 crore as income in FY2020 against outstanding dues from FY2015 till FY2020. The company expects receipt of this fixed cost subsidy compensation within FY2021. However, the notification is silent on minimum fixed cost of Rs. 2300/MT for urea plants, which would have been applicable for the company given that its current fixed cost is lower than Rs. 2,300/MT. RCF is in discussion with the Department of Fertilisers (DoF) for consideration of minimum fixed of Rs.2300 /MT and any resolution in favour of the company would further strengthen its profitability and liquidity position. ICRA also notes the healthy operating profits registered by industrial chemicals segment in 9M FY2021 because of lower cost of production owing to better energy efficiency and decline in natural gas prices.

The ratings continue to factor in the high financial flexibility of the company by virtue of the large sovereign ownership and its ability to access debt markets at competitive rates to support its liquidity profile. The ratings also factor in the established position of RCF as one of the largest urea manufacturers in India having vertically integrated operations in fertilisers and chemicals coupled with healthy operating efficiency of the company's urea operations reflected in high plant utilisation levels.

The ratings, however, are constrained by the vulnerability of profitability in the fertiliser business to regulatory risks and agro-climatic risks; vulnerability of the profitability of the chemical division to commodity price cycles, exchange fluctuations and potential reduction of import duty and high working capital intensive nature of fertiliser operations. The tightening of energy consumption norms for Trombay unit from October 2020 would affect the profitability from urea business though the same is expected to be offset to an extent by the increase in energy efficiency from several energy saving projects that the company is undertaking. RCF is also one of the joint venture (JV) partners with 29.67% stake in the revival project of Talcher unit of Fertiliser Corporation of India (FCI), with other stakeholders being Coal India and GAIL apart from FCI. The company's share of equity investment in the project is about Rs 1200 crore of which the company has already contributed Rs 565 crore as at December end 2020 and the balance is to be infused over the next three years. ICRA further notes that the Government of India (GOI) is moving ahead with the disinvestment of 10% equity in RCF through an offer for sale (OFS). Any reduction in GoI stake below 51% would be negative for the rating and remains a key rating sensitivity. While reaffirming the ratings, ICRA has also taken note of the on-going dispute of RCF with GAIL (India) Limited on claims made by the latter of Rs 1442.8 crore towards the use of APM/Domestic gas supplied from July 2006 to May 2015, which was used for non-fertiliser/ non-urea operations. Any material liability that may emerge on RCF from this matter is a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Large sovereign ownership and established position as one of the largest urea manufacturers - The GoI remains the largest stakeholder with 75% share in RCF. The large sovereign ownership results in high degree of financial flexibility for the company. The company has access to debt markets at competitive rates to support its liquidity profile. Further, RCF remains one of the largest urea manufacturers in India with a market share of ~7% in FY2020. RCF has an established position in about ten states in the western, central and southern parts of India on the back of its strong brand strength ("Ujjwala") and also has a significant presence in urea trading, which, along with products like DAP, MOP, etc. helps to provide a wider basket of products to farmers.

Product diversity and vertically integrated operations - The operations of RCF are characterised by a high level of vertical integration across its fertilisers and chemicals, thereby allowing high value addition and diversification. The strength of the company lies in its product diversity and ability to switch between product streams in line with the market conditions.

Healthy operating efficiency for urea operations - The company has maintained high operating efficiency at Thal and Trombay with capacity utilization of ~100%. However, tightening of the energy norms from October 2020 (to 6.538 Gcal/MT) will negatively impact the profitability at Trombay due to reduction in energy savings; however, the company has undertaken revamp projects to reduce its energy consumption levels which would partly negate the aforementioned impact over the medium term. Further, as per modified version of NPS-III, RCF plants is eligible to get an increase in the fixed cost of urea by Rs. 500/MT and consequently, the company had made one-time recognition of ~Rs. 460 crore in FY2020, while recurring reimbursement would be in the range of ~Rs.85 crore FY2021 onwards.

Credit challenges

Sensitivity of cash flows to delays in subsidy receipts and other regulatory risks – Subsidy inflow from the GoI had remained outstanding for nearly 5-6 months during the last few years which had impacted the cash flows of the fertiliser companies. In FY2020, in order to fund the delay in subsidy receipts, the companies had availed high working capital borrowings leading to large interest costs which impacted the profitability of the companies. However, as part of Rs 65000 crore subsidy announced under the Aatma Nirbhar Bharat Package 3.0 for the fertiliser sector, RCF has received a part of the subsidy while the remaining amount is expected to be received within FY2021. Disbursement of the additional subsidy is expected to substantially reduce the subsidy arrears of RCF which would lead to reduction in short-term borrowings and consequently, strengthen the debt coverage metrics. ICRA also notes that the fertiliser sector, being highly regulated, remains vulnerable to changes in the regulations by the GoI.

Continued regulatory overhang on gas related issues – The company continues to remain in dispute with GAIL on claims made by the latter of Rs. 1,442.8 crore towards the use of APM/Domestic gas supplied from July 2006 to May 2015, which was used for non-urea operations, which is currently under arbitration and has been referred to the committee of secretaries.

Large debt-funded capex plans over the medium term - RCF is one of the JV partners for a greenfield coal gasification based urea plant at Talcher (Odisha) which would entail sizeable equity infusion of about Rs 1200 crore as well as expose the company to project execution risks. The company has already contributed Rs 565 crore as at December end 2020 and the balance is to be infused over the next three years. As the internal accruals of the company are not adequate, most of these investments are likely to be debt funded and will yield returns only over the longer term, which will put pressure on its key credit metrics over the medium term.

Liquidity position: Adequate

The liquidity profile of RCF is expected to remain adequate due to sizeable unutilised working capital limits and healthy cash accruals. The company enjoys high financial flexibility due to its sovereign ownership resulting in easy access to debt markets which lends comfort from a credit perspective. Moreover, RCF's liquidity profile would benefit from the release of additional subsidies as part of Rs 65000 crore fertilizer subsidy scheme in the current fiscal which would also lead to overall reduction in the subsidy receivable amount and reduce the working capital debt substantially. Further, the company also expects receipt of fixed cost subsidy compensation within FY2021 which would further support the liquidity. However, ICRA notes that the company plans to make sizeable investments in the Talcher JV in the next three years which would be majorly funded through debt.

Rating sensitivities

Positive factors – Resolution of dispute on claims of use of cheap APM/Domestic gas for non-fertilizer/non-urea operations would be positive from a credit perspective. Further, resolution and receipt of fixed cost claims upto Rs 2300/ MT would also be positive for the ratings. In addition, material improvement in the profitability and return metrics of the company following the implementation and stabilisation of energy savings projects would also positively impact the ratings.

Negative factors – Stretch in working capital position of company owing to higher receivables period will be negative. Any deterioration in debt metrics owing to any large debt funded capex/investments or weak profitability will also put negative pressure on the ratings of the company. Additionally, reduction in GoI stake below 51% could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser Entities
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rashtriya Chemicals and Fertilizers Limited. As on March 31, 2020, the company had 3 JVs, that are enlisted in Annexure-2

About the company

Established in 1978, Rashtriya Chemicals & Fertilizers Limited (RCF) has a diversified product portfolio comprising urea (~70% of overall sales), complex fertilisers (~15%), traded fertilisers and industrial chemicals. The company's industrial chemicals portfolio comprises 15 products such as ammonium nitrate, nitric acid and methylamines. RCF has two plants in Maharashtra - at Trombay and Thal. The Thal unit is primarily engaged in the production of urea (capacity of 2 mmtpa) besides a few industrial chemicals. The Trombay unit is engaged in manufacturing a wide range of industrial products, complex fertilisers (capacity of 0.66 mmtpa) and urea (capacity 0.33 mmtpa). The Government of India (GoI) holds 75% stake in the company.

In H1 FY2021 as per unaudited and provisional results, the company reported profit after tax (PAT) of Rs 123 crore on an operating income (OI) of Rs 3,938 crore while it reported PAT of Rs 208 crore on an OI of Rs 9698 crore.

Key financial indicators (audited)

ICTIPL Consolidated	FY2019	FY2020	H1FY2021
Operating Income (Rs. crore)	8,885	9,698	3,938
PAT (Rs. crore)	139	208	123
OPBDIT/OI (%)	5.0%	6.0%	7.5%
RoCE (%)	7.3%	6.2%	8.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.2	2.0
Total Debt/OPBDIT (times)	7.8	8.3	4.0
Interest Coverage (times)	2.8	2.5	2.8
DSCR (times)	2.2	1.4	1.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/ (Interest + Repayments made during the Year)

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018
					24-Feb-2021	12-Mar-2020	23-July-2019	12-July-2018	08-June-2018	04-Jan-2018
1	Cash Credit	Long-Term	600.00	-	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	Term Loan	Long-Term	4500.00	1015.11	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
3	Non-Convertible Debentures	Long-Term	500.00	500.00	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
4	Commercial Paper Programme	Short-Term	3000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE027A07012	NCD	FY2020	6.59%	FY2025	500.00	[ICRA]AA- (Positive)
NA	Cash Credit	NA	NA	-	600.00	[ICRA]AA- (Positive)
NA	Term Loan 1	FY2016	NA	FY2023	304.00	[ICRA]AA- (Positive)
NA	Term Loan 1	FY2019	NA	FY2024	117.00	[ICRA]AA- (Positive)
NA	Term Loan 1	FY2017	NA	FY2023	50.00	[ICRA]AA- (Positive)
NA	Term Loan 1	FY2018	NA	FY2024	200.00	[ICRA]AA- (Positive)
NA	Term Loan 1	FY2020	NA	FY2026	3829.00	[ICRA]AA- (Positive)
NA	Commercial Paper	NA	NA	1-365 days	3000.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	ICTIPL Ownership	Consolidation Approach
FACT-RCF Building Products Ltd. (FRBL), Kochi	50%	Equity Method
Urvarak Videsh Limited (UVL)	33.33%	Equity Method
Talcher Fertilizers Limited (TFL)	29.67%	Equity Method

Source: *Company*

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