

October 22, 2021 ^{Revised}

Rashtriya Chemicals and Fertilizers Limited: Ratings upgraded to [ICRA]AA (Stable), outlook revised to Stable; short-term rating reaffirmed

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 (Stable); Upgraded from [ICRA]AA- (Positive)
Long-Term – Fund Based Term Loan	4500.00	4500.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Positive)
Long-Term – Non-Convertible Debentures	1000.00	1000.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Positive)
Commercial Paper	3000.00	3000.00	[ICRA]A1+; reaffirmed
Total	9100.00	9100.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the improvement in the financial risk profile of Rashtriya Chemicals and Fertilizers Limited ('RCF' or 'the company') led by timely receipt of subsidies coupled with healthy operating profits registered by industrial chemicals segment in FY2021 and Q1 FY2022. 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 with vertically integrated operations in fertilisers and chemicals coupled with healthy operating efficiency of the company's urea operations reflected in high plant utilisation levels. While upgrading the ratings, ICRA has also taken note of the resolution of the ongoing dispute of RCF with GAIL (India) Limited on claims made by the latter of Rs 1,442.8 crore towards the use of administered pricing mechanism (APM)/ domestic gas supplied from July 2006 to May 2015, which was used for non-fertiliser/ non-urea operations, which is a positive development.

The ratings, however, are constrained by the vulnerability of profitability in the fertiliser business to regulatory risks and agro-climatic risks as well as chemical division's vulnerability of profitability 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 affected profitability from the 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 the 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 1,184 crore of which the company has already contributed ~Rs 805 crore by the end of H1 FY2022 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's stake below 51% would be negative for the rating and remains 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 FY2021. RCF has an established position in about 10 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 Diammonium Phosphate (DAP) and and Muriate of Potash (MOP) 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 the Thal and Trombay units with capacity utilisation of ~100%. However, tightening of the energy norms from October 2020 (to 6.538 Gcal/MT) has negatively impacted the profitability at Trombay due to reduction in energy savings; however, the company is revamping projects to reduce its energy consumption levels which has partly negated the aforementioned impact over the medium term. Further, RCF is in discussion with the Department of Fertilisers (DoF) for consideration of a minimum fixed cost of Rs. 2,300 /MT and any resolution in favour of the company would further strengthen its profitability and liquidity position.

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 past few years which had impacted the cash flows of the fertiliser companies and resulted in increased working capital debt requirements. However, in FY2021, as part of Rs. 65,000 crore subsidy announced under the Aatma Nirbhar Bharat Package 3.0 for the fertiliser sector, RCF received additional subsidy which has substantially reduced its subsidy arrears and led to reduction in short-term borrowings. Consequently, the same has strengthened the company’s debt coverage metrics. Subsidy receipts from the Government have continued to remain timely in Q1 FY2022. Nevertheless, ICRA notes that the fertiliser sector, being highly regulated, remains vulnerable to changes in regulations by the GoI. ICRA has also noted the resolution of the ongoing dispute of RCF 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-fertiliser/ non-urea operations, which is a positive development.

Susceptible of profitability to fluctuations in natural gas prices – Natural gas remains the key raw material for the company for manufacturing urea and industrial chemicals. While profitability from the urea segment remains unaffected by increase in natural gas prices, the profitability from industrial chemicals segment remains susceptible to fluctuations in natural gas prices.

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 1,184 crore as well as expose the company to project execution risks. The company has already contributed Rs 805 crore as at September-end 2021, 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 may put some pressure on its key credit metrics over the medium term.

Liquidity position: Adequate

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. The average working capital utilisation stood at 26% of the sanctioned limits and 27% of its drawing power for the 12-month period ended June 2021. The company has plans for capex/investment in JVs over the next few years, for which ~Rs. 500-550 crore will be incurred in FY2022, to be funded through mix of debt and internal accruals. The repayment obligation in FY2022 is estimated to be around Rs. 205 crore. However, the liquidity profile of RCF is expected to remain adequate due to expected cash accruals, availability of unutilised limits and healthy cash balance (~Rs. 1,465 crore as on March 31, 2021). The reduction in subsidy receivables in recent months has also aided the liquidity position.

Rating sensitivities

Positive factors – Substantial improvement in profit margins while maintaining healthy working capital intensity and adequate liquidity profile on a sustained basis could lead to improvement in ratings.

Negative factors – Sustained decline in revenues and margins, or any stretch in working capital position of the company owing to a higher receivables period will be negative for credit rating. Any deterioration in debt metrics owing to any large debt-funded capex/ investments or weak profitability will also put negative pressure on the rating of the company. Additionally, reduction in Gol's 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	Parent: Government of India The ratings factor in the parentage from Gol and strategic importance of RCF for Gol given the company is a major fertiliser supplier in the country.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rashtriya Chemicals and Fertilizers Limited. As on March 31, 2021, 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 of 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 – one each 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 (Gol) holds 75% stake in the company.

In FY2021, the company reported profit after tax (PAT) of Rs 373 crore on an operating income (OI) of Rs 8,281 crore while it reported PAT of Rs 208 crore on an OI of Rs 9,698 crore.

Key financial indicators (audited)

ICTIPL Consolidated	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	8,885	9,698	8,326
PAT (Rs. crore)	139	208	373
OPBDIT/OI (%)	5.0%	6.0%	9.3%
RoCE (%)	7.3%	6.2%	10.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.2	1.3
Total Debt/OPBDIT (times)	7.8	8.3	2.7
Interest Coverage (times)	2.8	2.5	4.3
DSCR (times)	2.2	1.4	2.3

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 (FY2022)				Chronology of Rating History for the past 3 years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019		
				22-Oct-2021	26-Mar-2021	24-Feb-2021	12-Mar-2020	23-Jul-2019	12-Jul-2018	08-Jun-2018	
1 Cash Credit	Long-Term	600.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2 Term Loan	Long-Term	4500.00	1043.04	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
3 Non-Convertible Debentures	Long-Term	1000.00	500.00	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	[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+	[ICRA]A1+	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Non-Convertible Debentures	Simple
Commercial Paper Programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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
INE027A07012	NCD	FY2020	6.59%	FY2025	500.00	[ICRA]AA (Stable)
Not listed yet	NCD	NA	NA	NA	500.00	[ICRA]AA (Stable)
NA	Cash Credit	NA	NA	NA	600.00	[ICRA]AA (Stable)
NA	Term Loan 1	FY2017	NA	FY2028	4500.00	[ICRA]AA (Stable)
INE027A14927	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

Corrigendum

Document dated October 22, 2021 has been corrected with revisions as detailed below:

- **Parent/ Group Support under Analytical Approach on page no 3:** The analytical approach while arriving at the rating is considering the support from Gol being the parent, hence, the same has been incorporated in rationale.
- **Annexure -2 List of entities considered for consolidated analysis on page no 6:** Incorrect acronym was captured and the same has been corrected.

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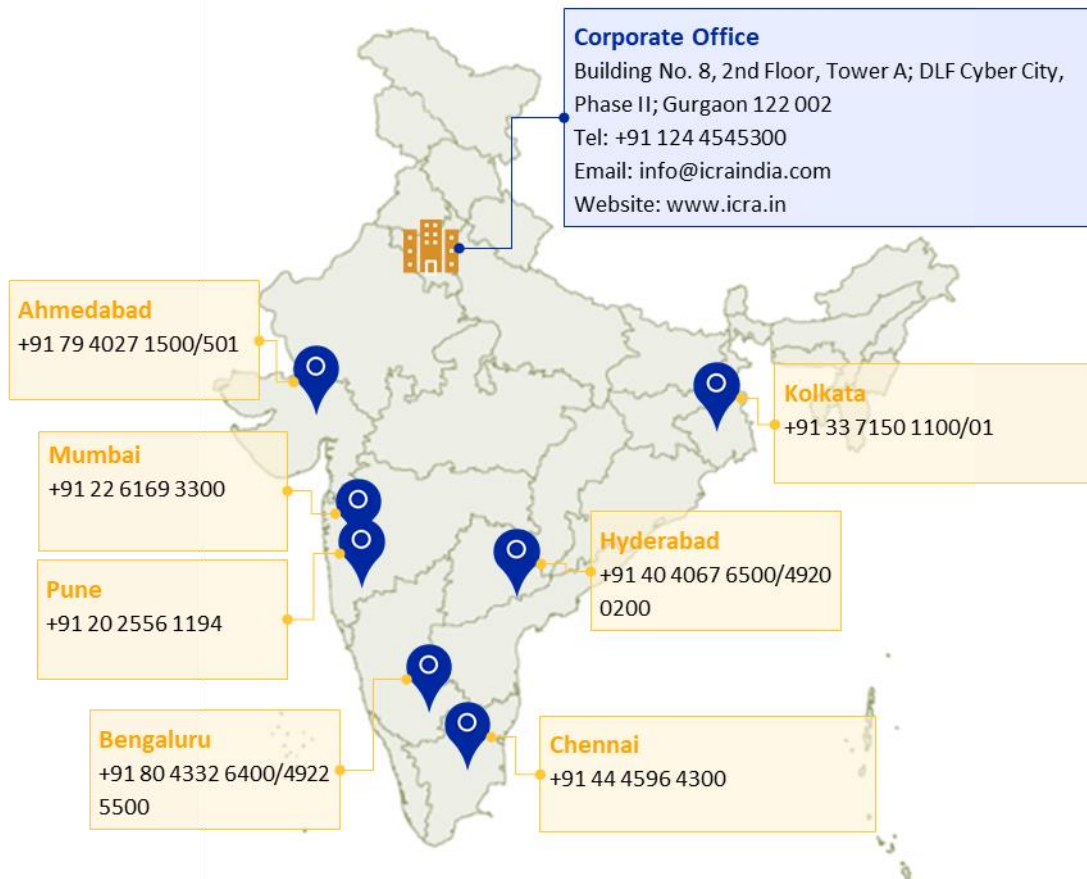


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