

July 29, 2022

Paradeep Phosphates Limited: Ratings removed from watch with negative implications; Stable outlook assigned on long-term rating; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Term Loans	824.0	2,000.0	[ICRA]A (Stable); rating removed from watch with negative implications and Stable outlook assigned
Fund based-Long Term facilities	1,365.0	3,000.0	[ICRA]A (Stable); rating removed from watch with negative implications and Stable outlook assigned
Non-fund based short term facilities	2,570.0	9,000.0	[ICRA]A1; rating removed from watch with negative implications
Commercial Paper programme	250.0	1,000.0	[ICRA]A1; rating removed from watch with negative implications
Total	5,009.00	15,000.0	

*Instrument details are provided in Annexure-1

Rationale

ICRA had earlier placed the ratings of Paradeep Phosphates limited (PPL) under watch with negative implications after the company announced its plans to acquire the urea and phosphatic fertiliser assets of Zuari Agro Chemicals Limited (ZACL) as the acquisition could lead to a moderation in the company's return and credit metrics.

The removal of the rating watch factors in the completion of the said acquisition. The acquisition was partly funded from the proceeds of PPL's initial public offering (IPO), partly by internal accruals and the balance from debt. The acquisition, along with the ongoing capex amid elevated raw material prices, is likely to keep the debt levels high in the near to medium term. However, PPL would benefit from the significantly larger scale of operations and enhanced backward integration (post stabilisation of the operations of the projects) which would aid in maintaining healthy contribution levels.

The ratings factor in expectations of healthy cash generation from operations amid steady receivable levels with timely receipt of subsidy from the GoI and operational improvements with the commissioning of backward integration projects which will improve cost efficiencies. PPL's revenues and volumes are likely to increase with the completion of the debottlenecking of its facilities which will take its manufacturing capacity to 1.8 MMTPA from 1.3 MMTPA earlier, along with the addition of 1.2-MMTPA capacity from ZACL's assets. While the contribution margins on the sale of phosphatic fertilisers are expected to moderate in FY2023 because of the steep rise in raw material prices, the cash flow is expected to remain stable with the expected rise in sales volume.

PPL's revenue witnessed a healthy growth of 52% YoY in FY2022, driven by a sharp increase in product realisation and volumes. With the sharp increase in the prices of raw material as well as finished fertiliser in international markets, the subsidy for phosphatic fertilisers has also increased sharply under the NBS scheme. As a result, the overall realisation of phosphatic fertilisers witnessed a sharp jump in FY2022. The company's OPBDITA increased to Rs. 727.9 crore in FY2022 from Rs. 549.1 crore in FY2021 as the company benefitted from low priced inventory at FY2021-end.

In May 2022, PPL completed the Rs. 1,500-crore IPO during which the GoI divested its 20% stake and around Rs. 1,000 crore was infused as fresh capital in the company. The total consideration of the Goa plant was around Rs. 2,052 crore, which included around Rs. 500 crore of working capital and the balance Rs. 1,550 crore was fixed asset consideration and the asset transfer was completed on May 30, 2022. This was funded by availing a term loan, part proceeds of the IPO and the balance by internal accruals.

The ratings continue to factor in the company's established position as one of the largest manufacturers of phosphatic and complex fertilisers in India and its leading market position in its marketing territories. The ratings also factor in the substantial gap between domestic production and consumption, leading to limited demand-related risks, and the company's healthy cost position due to its high operating efficiency and part backward integration into the manufacture of phosphoric acid and sulphuric acid. The company has established relations with its overseas raw material supplier i.e. OCP Morocco, as the latter belongs to the promoter group, ensuring smooth availability of raw materials and some cost benefits.

The ratings are constrained by the vulnerability of the company's profitability to agro-climatic and regulatory risks. The ratings also continue to factor in the company's relatively high segmental concentration towards phosphatic/complex fertilisers, its significant exposure to forex fluctuation risks and working capital intensity of its fertiliser business. The performance of P&K fertiliser manufacturers is vulnerable to the regulatory aspects related to fixed subsidy levels as well as economic variables (such as nutrient contents, commodity prices and currency movements).

ICRA also takes note of the capex programmes of PPL, including debottlenecking of its DAP/NPK capacity, capacity expansion of its phosphoric acid plant and installation of a phosphoric acid evaporator and expansion of capacities of the sulphuric acid plant. The debt for these projects, coupled with the debt to acquire ZACL's assets and increase in the working capital debt, is likely to keep the debt levels elevated in the near to medium term. This will translate into high debt/OPBDITA levels over near to medium term. Going forward, the stabilisation of these projects along with the optimum utilisation of ZACL's assets will remain the key monitorables.

The Stable outlook on the rating reflects ICRA's expectations of a steady cash flow generation with a substantial increase in the scale of operations, while benefitting from the long track record of operations.

Key rating drivers and their description

Credit strengths

Established position as one of the largest manufacturers of DAP and complex fertilisers in India - PPL is one of the largest manufacturers of DAP/NPK fertilisers in India with a total installed capacity of 1.5MMTPA post the debottlenecking of three trains in FY2021 and FY2022. The capacity will increase further to 1.8 MMTPA in FY2023 post the debottlenecking of the remaining line. Post the acquisition of ZACL's assets, the company will have around 2.5 MMTPA of annual manufacturing capacity of phosphatic fertilisers, making it the third-largest P&K manufacturer in the country.

Leading market position in DAP and NPK complexes in most regions - PPL enjoys a leading market share in states such as Odisha, West Bengal, Bihar and Uttar Pradesh. With the acquisition of ZACL's assets, PPL will enhance its market reach to the southern and western markets. PPL has a network of 2,540 dealers and 25,000-30,000 retailers.

Efficient cost structure with part backward integration; to improve with increase in phosphoric acid manufacturing capacity - PPL's operations are partially backward integrated into the production of phosphoric acid by using rock phosphate and sulphuric acid, which provides cost advantage to PPL as the phosphoric acid produced is cheaper than the imports. PPL had commissioned a 1.32-MMTPA sulphuric acid plant in FY2016, which has improved the cost structure of the company owing to the lower cost of power (produced from steam generated from the sulphuric acid plant) and sulphuric acid. Additionally, the company is in midst of installing an evaporator to increase the in-house production of strong phosphoric acid. Increase in the

phosphoric acid production capacity to 1,500 TPD (currently 1100 TPD) is likely to increase the extent of backward integration which will improve the contribution margins.

Smooth availability of key raw material - One of the promoters of PPL is Office Cherifien des Phosphates (OCP), Morocco, which is one of the largest producers of phosphoric acid globally. PPL procures part of its phosphoric acid requirement from OCP. As OCP is one of its promoters, PPL does not face any challenges in procuring its key raw material, in addition to getting financial benefits on the purchases.

Consistent support from GoI - The Government has been very supportive to the needs of the fertiliser industry so that the basic profitability can be maintained. The NBS rates are also expected to be revised in the coming months considering the impact of dollar as well as elevated raw material prices (rock and phosphoric acid). The main purpose behind this is to increase domestic production and reduce dependence on imports, which are more expensive. The GoI is also working towards the revision of fixed cost for fertiliser manufacturers. The receipt of subsidy has been timely from the Government.

Credit challenges

Profitability vulnerable to agro-climatic conditions – The agriculture sector in India remains vulnerable to the vagaries of the monsoon as the area under irrigation remains low. The sector being highly regulated and remains vulnerable to the changes in regulations by the GoI.

Sizeable run-up in prices of key raw material and finished fertiliser in international markets to impact contribution margins

- With the steep rise in international prices and constrained availability in the global market, the systemic inventory for fertilisers has declined to multi-year lows. Strong crop prices, constrained supplies and rising raw material prices have kept phosphatic fertiliser prices elevated, with prices reaching decadal highs. Phosphoric acid prices remain elevated amid strong demand for phosphatic fertilisers globally and the rise in sulphur prices; ammonia prices have also reached record highs amid the rise in natural gas prices. Further, the company is in the process of incurring capex towards backward integration and debottlenecking of its existing facilities. The capex, coupled with the debt availed to acquire Goa assets, is likely to keep the long-term debt levels high and moderate the leverage profile of the company in the near to medium term.

Exposure to currency risks - PPL imports majority of its raw material requirements, including rock phosphate, ammonia, muriate of potash (MOP) and part of the phosphoric acid, to produce DAP/NPK fertilisers, which exposes it to foreign exchange risks. The risk is, however, partly mitigated by the nearly complete hedging of the foreign exchange exposure the company undertakes.

Liquidity position: Adequate

The liquidity position of the company remains adequate to meet its capex and working capital requirements, given the adequate cash accruals and access to sanctioned fund-based working capital limits and term loans for the ongoing capex programmes. The company had nearly Rs. 1,088 crore of free cash at the end of FY2022, which provides support to the liquidity position of the company.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company demonstrates an improvement in its liquidity position along with the successful commissioning and stabilisation of the ongoing capex programmes, leading to sustained improvement in credit metrics, healthy profitability and lower working capital borrowings.

Negative factors – A decline in profitability leading to a deterioration in the debt metrics could lead to a rating downgrade. Moreover, a stretch in receivable days on a sustained basis, resulting in increased reliance on working capital borrowings, will lead to downward pressure on the ratings.

Analytical approach

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

About the company

Paradeep Phosphates Limited (PPL) is one of India's largest private sector phosphatic players, producing a wide range of phosphatic grades, including DAP, N-10, N-12, N-14, N-19, N-20 and N28. The company was incorporated in 1981 as a joint venture between the Government of India (GoI) and the Republic of Nauru (RN) to set up a phosphatic fertiliser manufacturing unit at Paradeep, Orissa. Later, in 1993, with the divestment of RN's stake, PPL became a public sector enterprise (PSU). Subsequently, in 2002, the GoI decided to divest close to 80% of its stake in favour of Zuari Maroc Phosphates Pvt Ltd (ZMPPL), a joint venture of Zuari Agro Chemicals Limited (ZACL) and the OCP Group S.A. Zuari Agro Chemicals was a pre-eminent fertiliser player of the country with a manufacturing unit in Goa. The OCP Group, based in Morocco, is one of the world's largest phosphatic players, having a control over 70% of the world's known phosphate reserves, having a revenue of over US \$10 billion.

On March 1, 2021, PPL entered into a Business Transfer Agreement with ZACL for the purchase of its fertiliser plant in Goa as a going concern on a slump sale basis, for a total consideration equal to the enterprise value of USD 280 million, equivalent to around Rs. 2,000 crore as per the terms of BTA. The company has started urea operations from June 2022 and will start NPK operations in September/October 2022. In May 2022, PPL completed the INR 1,500-crore initial public offering (IPO), during which the GoI divested the entire remaining 20% stake. The company also used part of the proceeds to complete the acquisition of the 1.2-million-MT fertiliser plant at Goa. PPL currently has a total capacity of close to 2.85 million MT, of which 0.4 million MT is urea and the balance 2.45 million MT is phosphates. The company has two large manufacturing facilities - one at Paradeep in Odisha and another at Zuarinagar, Goa. The raw materials used by PPL come from various countries such as Morocco, Jordan, Qatar and Saudi Arabia. For several raw materials, such as phosphate rock, phosphoric acid, ammonia and sulphur, the company has long-term supply agreements.

Key financial indicators (audited)

PPL Standalone	FY2021	FY2022
Operating income (Rs. crore)	5,164.7	7,858.7
PAT (Rs. crore)	223.5	397.8
OPBDIT/OI (%)	10.6%	9.4%
PAT/OI (%)	4.3%	5.1%
Total outside liabilities/Tangible net worth (times)	1.4	2.6
Total debt/OPBDIT (times)	2.3	4.0
Interest coverage (times)	4.9	8.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					29 July 2022		6 Nov 2020	20 July 2020	
1	Term loans	Long term	2,000.0	1,116.0	[ICRA]A (Stable)	[ICRA]A @; Rating on watch with negative implications	[ICRA]A @; Rating on watch with negative implications	[ICRA]A @; Rating on watch with negative implications	[ICRA]A (Stable)
2	Fund based-long term facilities	Long term	3,000.0	-	[ICRA]A (Stable)	[ICRA]A @; Rating on watch with negative implications	[ICRA]A @; Rating on watch with negative implications	[ICRA]A @; Rating on watch with negative implications	[ICRA]A (Stable)
3	Non-fund based facilities	Short term	9,000.0	-	[ICRA]A1	[ICRA]A1 @; Rating on watch with negative implications	[ICRA]A1 @; Rating on watch with negative implications	[ICRA]A1 @; Rating on watch with negative implications	[ICRA]A1
4	Commercial Paper	Short term	1,000.0	-	[ICRA]A1	[ICRA]A1 @; Rating on watch with negative implications	[ICRA]A1 @; Rating on watch with negative implications	[ICRA]A1 @; Rating on watch with negative implications	[ICRA]A1

@= Under watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Long-term Fund based limit	Simple
Short Term-Non fund based	Simple
Commercial Paper	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 analysing 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 are 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
NA	Term Loan-I	FY2017- FY2022	7.12%- 9.0%	FY2023- FY2029	2,000.0	[ICRA]A; (Stable)
NA	Fund Based Limits	-	-	-	3,000.0	[ICRA]A; (Stable)
NA	Short term-Non-fund based limits	-	-	-	9,000.0	[ICRA]A1
NA	Commercial Paper (Unplaced)	-	-	-	1,000.0	[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	PPL Ownership	Consolidation Approach
-	-	-

Source: PPL

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