

January 04, 2021

Chambal Fertilisers & Chemicals Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	4,500.0	4,500.0	[ICRA]A1+; reaffirmed
Total	4,500.0	4,500.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the established position of Chambal Fertilisers & Chemicals Limited (CFCL) as the third largest urea manufacturer in the domestic market, stable demand outlook for fertilisers, and high import dependence for urea in the country along with energy efficient urea operations of the company. The rating also factors in the healthy operational performance of urea operations, the high financial flexibility of the company and the strong policy support for G-III under New Urea Investment policy-2012 (NIP-2012). The rating also factors in the improvement in the credit profile of the company driven by the improvement in the cash generation and repayment of term debt. The gross leverage (Total Debt/OPBDITA) improved to 2.8x by the end of H1 FY2021 as against 4.6x at the end of FY2020 and the interest coverage improved to 7.5x in H1 FY2021 vis-à-vis 4.1x in FY2020. The credit metrics are expected to improve further going forward with the expectation of healthy profitability from urea and trading operations. While urea operations continue to remain stable, CFCL has significantly ramped up its trading operations in YTD FY2021 which along with healthy contribution levels on sale of phosphatic fertilisers, has provided uplift to the profitability. ICRA also takes note of the announcement of the allocation of Rs. 65,000 crore for meeting the fertiliser subsidy under Atmanirbhar Bharat 3.0. The timely release of the additional allocation will significantly improve the credit profile of the entire fertiliser industry and the company as the entire subsidy backlog will be cleared. Thus, one of the most critical issue plaguing the industry's credit profile will be resolved.

The rating also factors in the vulnerability of the performance of CFCL to agro-climatic conditions, regulatory risks, and delay in subsidy receipts from Gol which result in high interest charges to fund the working capital borrowings and impact profitability. The elevated debt levels due to the term debt availed for the brownfield expansion will keep the credit metrics subdued in the near term.

Key rating drivers and their description

Credit strengths

Established position of CFCL in the domestic fertiliser industry: CFCL is the largest private sector urea manufacturer with 3.00 MMTPA of installed capacity and third largest urea player in the country. CFCL has ~11% market share in urea segment (as per 7M FY2021 sales). CFCL has been growing its trading portfolio also with a market share of 8% (as per 7M FY2021 sales) and has cemented its position as one of the leading players of the fertiliser sector with total fertiliser volume sales of ~3.47 MMT (including urea and non-urea fertilisers in 7M FY2021). A strong marketing network comprising of nearly 1700 dealers enables CFCL to reach a wide farmer base and reduces the marketing risk for the trading segment.

Favourable demand-supply scenario of urea in India due to price differential with non-urea fertilisers: Post implementation of the Nutrient Based Subsidy (NBS) in 2010 for non-urea fertilisers there has been a significant price differential between urea and P&K fertilisers which has resulted in farmers showing preference for urea due to lower price. The total domestic production in 8M FY2021 was around 16.7 MMT, as against domestic demand of ~23.6 MMT which resulted in significant dependence on imports to meet the shortfall. Thus, the demand risk for indigenous urea remains low.

Healthy energy efficiency and capacity utilisation levels of the urea units; stable cash generation from urea: CFCL's urea plants continue to remain one of most energy efficient urea plants in the country and are competitive against imported urea as well. The plants have also been able to maintain healthy capacity utilisation levels for the past several years along with energy consumption remaining well below the normative norms defined by the fertiliser policy from time to time aiding profitability. With the commissioning of the brownfield expansion of urea in January 2019, the cash generation from urea operations have increased significantly from FY2020 onwards, owing to the strong policy support from New Urea Investment Policy-2012 (NIP-2012) assuring a floor of 12% and ceiling of 20% on post-tax Return on Equity (RoE). The cash generation from urea operations is expected to remain stable going forward supported by strong operational performance and policy support.

High financial flexibility on account of large bank limits and standing among investors: CFCL exhibits high financial flexibility in terms of its ability to raise funds at highly competitive rates in a short period of time and large unutilised bank limits as the company largely relies on commercial paper to reduce the interest outgo.

Strong policy support from NIP-2012 for the brownfield expansion: CFCL operationalised 1.27 MMTPA of its urea brownfield expansion in January 2019 under the New Urea Policy-2012 (NIP-2012). The policy offers a pass-through of increase in gas prices by raising urea prices by \$2/MT with every \$0.10/mmbtu rise in the gas price (up to \$14.0/mmbtu). At each level of gas price (between USD 6.5/mmbtu to USD 14/mmbtu), different floor and ceiling prices are designed to achieve between 12% and 20% post-tax return on equity (RoE) respectively, these being the theoretically minimum and maximum return. The Cabinet Committee on Economic affairs (CCEA) had amended NIP-2012 by replacing the clause for "guaranteed buyback" by domestic production by companies in October 2014, exposing these projects to off-take risk in case international urea prices were to decline significantly. However, the intent of the GoI to continue the prevalent practice of first off-taking entire domestic production before resorting to import should partly mitigate this risk. CFCL has been operating G-III at around 100% capacity utilisation since January 2019 and the same is expected to continue going forward as well, which should result in strong cash generation going forward.

Credit challenges

Risks emanating from policy formulation and agro-climatic conditions for the profitability of the fertiliser sector: Profitability of the fertiliser sector remains vulnerable to agro climatic conditions as a major part of the country is still dependent on monsoon. Profitability of the sector also remains vulnerable to the regulatory policies of GoI as has been witnessed by delay in the revision and payout of the fixed costs for the urea units and the reduction in NBS rates for non-urea fertilisers along with the GoI intervention in pricing of the same during FY2017.

Delay in the subsidy receipts impact profitability and cash flows: Delay in receipt of subsidy from GoI has resulted in high working capital borrowings to fund cash flow mismatches. Large working capital borrowings also result in high interest charges which have impacted the profitability. The release of subsidy under the Direct Benefit Transfer (DBT) scheme for the fertiliser sector has resulted in extension of the working capital cycle for the company resulting in higher working capital borrowings as point of raising claims on subsidy has shifted from despatch to sale at the retail level.

However, with the additional allocation of the Rs. 65,000 crore for meeting the fertiliser subsidy, the subsidy may be received timely from FY2022, easing the working capital cycle of the fertiliser companies.

Elevated debt levels driven by large debt funded capacity expansion undertaken and high working capital requirements to keep credit metrics subdued in the near to medium term: CFCL completed its \$914 million-dollar brownfield urea capacity expansion plan in January 2019. The capex was funded in a 3.5:1 debt-equity ratio. As a result of significant debt funding involved in the capex coupled with the elevated working capital borrowings to fund the subsidy delays by GoI, the credit metrics are expected to remain subdued in the near to medium term. With the new plant beginning to contribute to cash generation in FY2020, the credit metrics have improved.

Low international urea prices could impact profitability; favourable policy measures by DoF regarding production beyond the RAC to largely protect profitability: International urea prices are expected to remain subdued in the near to medium term given the large capacity additions taking place globally with demand growth remaining at around 2% p.a. While CFCL's production has remained competitive against urea imports due to high energy efficiency, in case of weak international urea prices and rising natural gas prices the contribution from production beyond RAC for G-I and G-II may get impacted. In such a scenario actions of DoF, given the autonomy by the GoI, to protect the domestic urea production will be imperative.

Liquidity position: Adequate

CFCL's liquidity is expected to remain adequate given the availability of large unutilised fund-based limits (average utilisation of fund-based limits and commercial paper was ~60% of the drawing power for last 12 months) and cash in hand of Rs. 133.3 crore at the end of FY2020. With cash accruals expected to be in the range of Rs. 1100-1200 crore per annum in the period of FY2021-FY2023 and no major capex planned, CFCL should be able to service its term debt repayments (Rs. 700-800 crore p.a.) over the period of FY2021-2023 comfortably.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Rating could be downgraded in case of lower than expected capacity utilisation of urea operations resulting in lower cash accruals which will weaken the debt servicing capability of CFCL. Rating would also face downward pressure in a scenario of stretching of working capital cycle owing to higher than expected delays in the subsidy receivables from the GoI.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings for CFCL are based on standalone financials of the company

About the company

Chambal Fertilisers & Chemicals Limited (CFCL) was promoted by Zuari Industries Limited, a K.K. Birla Group company, in 1985. The company has two urea manufacturing units at Gadepan (Kota, Rajasthan), both based on natural gas feedstock. The total installed capacity of both units is 1.73 million metric tonnes per annum (MMTPA); however, the company has an actual production capacity of ~2 MMTPA post the partial de-bottlenecking undertaken in CY2009. The company commissioned 1.27 MMTPA of urea capacity at its Kota facility taking the overall production capacity to ~3.0

MMTPA. CFCL is India's largest private sector manufacturer of urea. The plant is being supplied natural gas through the Hazira-Vijaypur-Jagdishpur (HVJ) gas pipeline of GAIL. The company is also involved in trading of agri-inputs such as complex fertilisers (DAP, MOP, SSP), pesticides, seeds, etc.

CFCL also has a 33.33% stake in Indo Maroc Phosphore SA (IMACID), Morocco, a major producer of phosphoric acid while other subsidiaries are either under liquidation or have no business operations currently.

Key financial indicators (audited)

	FY2019	FY2020	H1 FY2021*
Operating Income (Rs. crore)	10120.6	12239.7	7205.6
PAT (Rs. crore)	545.3	1224.3	730.2
OPBDIT/OI (%)	12.6%	17.0%	18.5%
PAT/OI (%)	5.4%	10.0%	10.1%
Total Outside Liabilities/Tangible Net Worth (times)	3.3	2.7	2.0
Total Debt/OPBDIT (times)	6.7	4.6	2.8
Interest Coverage (times)	5.1	4.1	7.5

Source: Company data, ICRA estimates; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Interest Coverage: OPBDIT/Interest Expense; *H1 FY2020 results are un-audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)			Rating History for the Past 3 Years							
		Type	Amount Rated	Amount Outstanding	Current Rating		FY2020		FY2019			FY2018
					04-Jan-21	06-Jul-20	22-Nov-19	20-Jun-19	19-Nov-18	13-Jun-18	04-May-18	04-Oct-17
1	Commercial Paper	Short Term	4500	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	-	-	7-365 days	4,500.0	[ICRA]A1+

Source: Chambal Fertilisers & Chemicals Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

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