Madras Fertilizers Limited

Instrument	Amount	Rating Action
	In Rs Crore	November 2016
Long term: Fund based facilities	191.40	[ICRA]C; assigned
Long term: Proposed fund based facilities	2.84	[ICRA]C; assigned
Short term: Non fund based facilities	330.00	[ICRA]A4; assigned

ICRA has assigned a long term rating of [ICRA]C (pronounced ICRA C) to the Rs 194.24 crore[1] fund based bank facilities of Madras Fertilizers Limited (MFL/'the Company')[2]. ICRA has also assigned a short term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs 330.0 crore non fund based bank facilities of MFL.

The assigned ratings reflect the weak financial profile of the company with large net losses in the recent years, substantially negative net worth position and continuing default on the repayment of the Government of India loans drawn down for the factory revamp project. Owing to the weak financial profile and inadequate cash flows, the company has ceased to service the interest and principal on the Government of India loans drawn for the revamp project initiated in late 1990s. However, as part of the BIFR proposal, the management expects waiver of the GoI loan repayments/conversion to equity which could substantially improve the capital structure of the entity.

MFL's plant is of old vintage having been operational for close to 50 years and is one among the only three urea plants in the country still operating with naphtha as feedstock. It falls under the pre-1992 naphtha group and the existing NPS-III mandated liquid fuel-based players like MFL to switch over to gas feedstock. MFL has undertaken the conversion project and incurred most of the capex, but it could not switch over due to lack of gas availability. The GoI had been extending the deadline for such units under Modified NPS-III on a provisional basis for conversion to gas. However, during FY2015 and FY2016, the company had to undertake shutdowns multiple times as the GoI policy continuity was uncertain and did not extend the policy for intermittent period as well. Finally in June 2015, GoI approved the continuation of the production of urea using naphtha as feedstock, till availability of gas. However, subsidy would be paid as per the cost of production based on naphtha or R-LNG, whichever is lower, which leads to high variability in the profits from the urea division, until gas supply is provided to MFL.

The ratings are constrained by the impact of regulatory policy changes and agro-climatic conditions on the company's profitability; and the sensitivity of cash flows to subsidy budgeting and disbursement by GoI. The ratings also consider the high energy consumption levels witnessed in the recent past owing to the vintage of the plant and usage of naphtha as fuel; inability to maintain the energy consumption levels within the Govt mandated limits might result in under-recoveries and impact the profitability. The ratings also consider the lower production of phosphatic fertilisers in the past few years owing to unavailability of funding limits to import key raw materials; these non-urea fertilisers were the key drivers of profitability in the past.

The ratings also factor in the long shutdowns witnessed in the last financial year following the Government's decision to shut down urea plants which haven't completed gas conversion and also due to the floods in Chennai during the month of December 2015; these shutdowns impacted the capacity utilisation and had resulted in large losses during the year. The ratings further take into account the GoI's order mandating conversion to gas by FY 2018 and associated reduced energy consumption levels of 6.5 Gcal/MT; MFL has incurred most of the capital expenditure requisite for gas conversion, however gas from the proximate R-LNG terminal in Ennore is expected only post 2018 pending commissioning of the terminal.

These rating concerns are offset to an extent by the strong sponsor profile of MFL with Govt of India holding a 59.5% stake and NaftIran (NIOC) holding 25.8%. The ratings also factor in the established market position of the company as one of the largest urea manufacturers in South India with reputed brands, wide dealer network and a leading market share in Tamil Nadu. The company also has logistical advantages being present in the

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

vicinity of Chennai Petrochemical Corporation Limited's (CPCL) refinery, from where naphtha is being sourced, and Ennore port from where R-LNG will be sourced.

Company Profile

Madras Fertilizers Limited (MFL) was incorporated on December 8, 1966 as a joint venture between GOI and AMOCO India incorporated of U.S.A (AMOCO) in accordance with the Fertilizer Formation Agreement executed on 14.5.1966 with equity contributions of 51% and 49% respectively. National Iranian Oil Company (NIOC), an undertaking of Government of Iran, acquired part of AMOCO's shareholding and with the company going public in 1997 the current shareholding pattern is as follows: Government of India – 59.5%; NIOC – 25.8%; Public – 14.7%. MFL is engaged in the manufacture of Ammonia, Urea, Complex Fertilizers and Biofertilizers. MFL has its plant facilities and head quarters located on 329 acres of freehold land at Manali, about 20 km north of Chennai city.

November 2016

For further details, please contact:

Analyst Contact:
Mr. K Ravichandran, (Tel. No. +91-44- 4596 4301)
ravichandran@icraindia.com

Mr. Raghunath T, (Tel. No. +91-44- 4596 4340)
raghunath.t@icraindia.com

Mr. Ankit Deora, (Tel. No. +91-22- 6169 3347)
ankit.deora@icraindia.com

Relationship Contact:
Mr. L Shivakumar, (Tel. No. +91-22-6114 3406)
shivakumar@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	