

January 25, 2018

Madras Fertilizers Limited

Summary of rated Instruments

Instrument	Amount	Rating Action
	Rs Crore	
Long Term; Fund based facilities	191.40	[ICRA]C; reaffirmed
Long Term; Proposed fund based facilities	2.84	[ICRA]C; reaffirmed
Short term; Non fund based facilities	330.00	[ICRA]A4; reaffirmed

* Instrument Details are provided in Annexure I

Rating Action

ICRA has reaffirmed the ratings of [ICRA]C (pronounced ICRA C) and [ICRA]A4 on the Rs 524.24 crore¹ bank facilities of Madras Fertilizers Limited (MFL)².

Rationale

The ratings reaffirmation reflects the weak financial profile of the company with 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 inadequate cash flows, the company has ceased to service the interest and principal on the Government of India loans drawn for the revamp completed in the 1990s. However, as part of the restructuring proposal, the management expects waiver of the GoI loan repayments/conversion to equity which could substantially improve the capital structure of the entity.

Key Rating Drivers

Credit Strengths

- **Strong sponsor profile with GoI (~60%) and Naftiran (~26%) as the promoters** – The company has one the vintage urea units in the country and was promoted as a Indo-Iranian Joint Venture (with Naftiran, NIOC, being the shareholder). The company also has logistical advantages being present in the vicinity of Chennai Petrochemical Corporation Limited's (CPCL) refinery, from where naphtha is being sourced, and Ennore port from where R-LNG will be imported.
- **One of the largest manufacturers of urea in South India** - The company has an established market position as one of the largest urea manufacturers in South India with reputed brands, wide dealer network and a leading market share in Tamil Nadu (~50%).

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.

Credit Weakness

- **Continuing defaults on the GoI debt due to the poor operational performance of the company –** 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 completed in the 1990s.
- **Old plant with poor operational efficiency and high energy consumption –** The energy consumption levels have been high for MFL 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.
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. In June 2015, GoI approved the continuation of the production of urea using naphtha as feedstock, till availability of gas.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Fertiliser entities](#)

About the Company

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.

Key Financial Indicators (Audited)

Consolidated	FY2016	FY2017
Operating Income (Rs. crore)	1201.6	1400.2
OPBDIT (Rs. crore)	6.7	79.1
PAT (Rs. crore)	-189.5	-23.3
OPBDIT/ OI (%)	0.6%	5.6%
PAT/OI (%)	-15.8%	-1.7%
Total Debt/ TNW (times)	-2.68	-2.26
Total Debt/ OPBDIT (times)	213.0	15.9
Interest coverage (times)	0.06	0.87

Source: Audited financials of the company. OI: Operating Income; 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: Not applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				January 2018	November 2016	-	-
1	Fund based	Long Term	191.4	[ICRA]C	[ICRA]C	-	-
2	Proposed fund based	Long Term	2.84	[ICRA]C	[ICRA]C	-	-
3	Non fund based	Short Term	330.0	[ICRA]A4	[ICRA]A4	-	-

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
Details of Instrument

ISIN	Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
-	Cash Credit	-	NA	-	191.4	[ICRA]C
-	Proposed Cash Credit	-	-	-	2.84	[ICRA]C
-	Bank Guarantee / Letter of Credit	-	NA	-	330.0	[ICRA]A4



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