

Paradeep Phosphates Limited

September 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Term Loans	200.0	350.0	[ICRA]A (Stable); Assigned/Outstanding
Fund Based Long Term Facilities	1000.0	1300.0	[ICRA]A (Stable); Assigned/Outstanding
Non -Fund Based Short Term Facilities	2300.0	2600.0	[ICRA]A1; Assigned/Outstanding
Commercial Paper Programme	0.0	250.0	[ICRA]A1; Assigned
Total	4500.0	4500.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]A (pronounced ICRA A) to Rs. 350.0 crore term loans (enhanced from Rs. 200.0 crore) and Rs. 1300.0 crore fund-based facilities (enhanced from Rs. 1000.0 crore) of Paradeep Phosphates Limited (PPL). ICRA has also assigned the short-term rating of [ICRA]A1 (pronounced ICRA A one) to Rs. 2600.0 crore non-fund based short term facilities (enhanced from Rs. 2300.0 crore) of PPL. ICRA has also assigned a rating of [ICRA]A1 to the Rs. 250.0 crore Commercial Paper Programme. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings consider the sustained improvement in profitability of PPL over the last two years i.e. FY2017 and FY2018 coupled with improvement in working capital cycle leading to lower working capital borrowings and improved capital structure. The contribution margins of the company have witnessed significant improvement owing to subdued raw material prices primarily phosphoric acid and improvement in the cost structure post commissioning of the sulphuric acid plant. With improvement in contribution margins and materially lower interest costs, the net profit for the company increased to Rs. 150.6 crore in FY2018 from Rs. 86.9 crore in FY2017. The ratings also factor in the improvement in capitalisation and coverage indicators of the company owing to improvement in the profitability and working capital intensity owing to various steps taken by the company. PPL has made efforts towards improving its working capital cycle which is reflected in the improvement in collection efficiency from trade debtors. PPL also gets 60-90-day interest free credit period from one of its parent OCP for purchase of phosphoric acid and rock phosphate which has also helped in reducing the working capital intensity for the company to 53% in FY2018 from 63% in FY2017, though the working capital intensity continues to remain high. The gearing of the company reduced to 1.3 times at the end of FY2018 as against 2.1 times at the end of FY2017. The Total Debt/OPBDITA improved to 3.8 times at the end of FY2018 as against 6.3 times at the end of FY2017 given significant lowering of debt and improvement in operating profit in FY2018.

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 moderate cost position due to high operating efficiency and part backward integration into the manufacture of phosphoric acid. The company's established relations with overseas raw materials' suppliers due to the latter belonging to the promoter group generally results in smooth availability of raw materials. The ratings also consider the high financial flexibility arising from its association with the Adventz Group (part of the erstwhile K.K. Birla Group). Besides, ICRA notes that PPL derives benefits from the group's presence in P&K business through three companies viz

Zuari Agro Chemicals Limited (ZACL, rated [ICRA]BBB+(Stable) and [ICRA]A2+) and Mangalore Chemicals & Fertilisers Limited (MCFL) besides itself, in the areas of raw material procurement, plant operations and marketing.

The ratings are constrained by the vulnerability of the company's profitability to agro-climatic and regulatory risks, with the former being reflected by muted demand in recent years and the latter being reflected by substantial delays in subsidy receipts from the GoI in recent years leading to high short-term borrowings. The ratings also continue to factor in the company's relatively high segmental concentration towards phosphatic/complex fertilisers, significant exposure to forex fluctuation risks being a major importer and high working capital intensity of its fertiliser business. The performance of P&K fertiliser manufacturers (such as PPL) is relatively more vulnerable to regulatory (subsidy levels) as well as economic variables (such as supply-demand, commodity prices and currency movements). Further, substantial price increase in the prices of P&K fertilisers post the implementation of NBS have adversely impacted demand due to significant price differential with urea. The subsidy inflow post implementation of Direct Benefit Transfer (DBT) for the fertiliser sector has been affected by initial operational hiccups leading to elongation in the working capital cycle in the recent months. However, these issues are expected to be transitional in nature and as the system stabilises the subsidy inflow is expected to stabilise.

ICRA also takes note of the Rs. 54 crore provisions made by the company related to entry tax to be paid on import of raw material while the company was under BIFR (~Rs. 39 crore), interest on electricity duty (Rs. 9.6 crore) on captive power generation for period of March 2009 to March 2017 and arrears for salary to non-executives owing to revision in retirement age from 58 years to 60 years (Rs. 5.2 crore). The provision for entry tax will be paid out in the form of a Rs. 2 crore quarterly pay-out over next five years. Given the healthy cash accruals, the cash outflow will not have major impact on credit profile of the company.

Outlook: Stable

PPL's financial performance is expected to remain healthy in the near term driven by healthy contribution from DAP/NPK sales with improvement in the costs structure which is expected to keep the profitability at healthy levels. Additionally, the steps being taken by the company to improve the working capital cycle may also result in lowering of the borrowings and thus improve capital structure of the company.

Key rating drivers

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 1.2MMTPA. The plant can switch between production of DAP and NPKs as per demand and contribution levels. With the planned debottlenecking of the DAP/NPK trains the manufacturing capacity will rise further to around 1.5 MMTPA by the end of FY2020.

Leading market position in DAP and NPK complexes in most of its marketing territories: PPL enjoys leading market share in most of its territories like Orissa, West Bengal, Bihar and Uttar Pradesh. PPL also benefits from being part of Adventz Group wherein the marketing function is now unified along with Zuari Agro Chemicals Limited (ZACL) and Mangalore Chemicals & Fertilisers Limited (MCFL) leading to synergies in terms of product placement and market reach. PPL has a dealer network of 2540 dealers and around 25000-30000 retailers.

Favourable domestic demand outlook for phosphatic fertilisers due to deficient soil and substantial gap between domestic production and consumption: The ideal N:P:K nutrient balance for Indian soil is 4:2:1 while the actual ratio was 6.8:2.7:1 at the end of FY2017. The nutrient imbalance is a result of overuse of urea and low use of NPK which makes the

soil acidic. With schemes like soil health cards being implemented by GoI to determine the soil health and advice to farmers on the right fertilisers to use the demand outlook for P&K fertilisers remains positive.

Efficient cost structure with part backward integration into manufacturing of phosphoric acid: PPL is backward integrated into production of phosphoric acid by using rock phosphate and sulphuric acid which provides a key cost advantage to PPL as phosphoric acid produced is cheaper than imported phosphoric acid. PPL had commissioned a 1.2MMTPA sulphuric acid plant in FY2016 which has resulted in improved cost structure for the company resulting from lower cost of power and sulphuric acid.

Favourable relation with overseas suppliers results in easy availability of raw materials: 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. Since OCP is one of its promoters, PPL does not face any challenges in procurement of key raw material.

Financial flexibility arising from association with the Adventz Group (erstwhile K.K. Birla Group) of companies: PPL is part of the Adventz Group as ZACL owns nearly 40% in the company. Being part of the Adventz group lends PPL the ability to refinance its loans as well as enjoy finer interest rates.

Credit challenges

Segmental concentration towards phosphatic / complex fertilisers as compared to some of the other leading fertiliser manufacturers in India: PPL's entire product portfolio is concentrated to phosphatic and complex fertilisers while many other players have a relatively diverse product portfolio. As a result, PPL is more vulnerable to the vagaries of volatility in the P&K fertiliser segment.

Vulnerability of profitability to agro-climatic conditions: Agriculture sector in India remains vulnerable to the vagaries of monsoon as the area under irrigation remains low which exposes fertiliser sector demand to volatility as well. The sector being highly regulated also remains vulnerable to changes in the regulations by GoI.

Sharp rise in prices of P&K fertilisers post NBS have adversely impacted demand due to high price differential with urea: Post implementation of Nutrient Based Subsidy (NBS) for P&K fertilisers, the price differential between urea and P&K fertilisers has widened which has adversely impacted demand for P&K fertilisers. The profitability of the company depends on the movement of international prices of raw material as majority of raw material is imported. The ability of the company to pass on any increase in raw material prices to end-consumer through revision of retail price also plays a crucial role in protecting profitability of the company.

Being a substantial importer, exposed to risk of currency fluctuations, although mitigated by firm hedging policy: PPL imports majority of its raw material requirement including rock phosphate, ammonia, Muriate of Potash (MOP) and part of phosphoric acid for production of DAP/NPK fertiliser 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.

Working capital requirements have remained high in recent years due to delay in subsidy receipts from the GoI: As the subsidy receivables from GoI continue to remain outstanding for as long as 4-5 months working capital borrowings to fund the receivables keep the borrowing levels elevated. The high receivable days also lead to high working capital intensity for the business and high interest costs for the company impacting profitability. PPL has made efforts towards improving its working capital cycle which is reflected in the improvement in collection efficiency from trade debtors. PPL also gets 60-90-day interest free credit period from one of its parent OCP for purchase of phosphoric acid and rock phosphate which has also helped in reducing the working capital intensity for the company.

Moderate financial risk profile characterised by moderate profitability and returns, moderate capital structure and working capital intensive nature of operations: While PPL has witnessed improvement in its operating profit over the last few years, high interest costs continue to be a drain on profitability of the company. Owing to delay in subsidy receipts from the GoI, the operations continue to remain capital intensive with significantly high working capital borrowings. As a result, the capital structure of the company remains moderate with moderate return indicators.

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 industry](#)

About the company:

Paradeep Phosphates Limited (PPL) was incorporated in 1981 as a joint venture between the Government of India (GoI) and the Republic of Nauru to set up facilities for the manufacture of di-ammonium phosphate (DAP) at Paradeep, Orissa. In 1993, the Republic of Nauru disinvested its equity stake to the GoI and PPL became a public sector enterprise wholly owned by the GoI. In February 2002, GoI disinvested 74% of PPL's equity in favour of Zuari Maroc Phosphates Private Limited (ZMPPL), a 50:50 joint venture between Zuari Industries Limited (ZIL, a K.K. Birla Group company) and Maroc Phosphores, Morocco (part of OCP Group, Morocco). ZIL was demerged into Zuari Agro Chemicals Limited (ZACL, earlier Zuari Holdings Limited, rated [ICRA]BBB+(Stable) / [ICRA]A2+) and Zuari Global Limited w.e.f. July 1, 2012. Currently, ZMPPL holds 80.45% stake in PPL, while the remaining 19.55% is held by the GoI. As on September 30, 2002, the company's net worth had turned negative due to continuing losses and it was referred to BIFR in February 2003. BIFR, after several rounds of hearings involving various stakeholders, approved a final restructuring scheme in October 2008. The company formally exited BIFR in August 2011.

PPL is currently among the top few integrated DAP plants in India with an installed annual capacity of 0.72 million metric tonnes per annum (MMTPA) of DAP / NPK complex fertilisers (effective capacity of 1.2 MMTPA), 0.30 MMTPA of phosphoric acid and 1.32 MMTPA of sulphuric acid. Actual production of DAP / NPK fertilisers has remained higher than the installed capacity over the past few years due to initiation of several operational improvement and debottlenecking projects by the management. The company is almost fully reliant on imported raw materials (rock phosphate, phosphoric acid, ammonia, sulphur, potash, etc.) for its operations and has a dedicated jetty at the Paradeep Port for these imports.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	3,619.8	3,788.0
PAT (Rs. crore)	86.9	150.6
OPBDIT/OI (%)	11.1%	12.9%
RoCE (%)	10.1%	11.5%

Total Debt/TNW (times)	2.1	1.3
Total Debt/OPBDIT (times)	6.3	3.8
Interest coverage (times)	1.7	3.1

Source: ICRA estimates; OI: Operating Income; 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)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years						
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
				September 2018	August 2018	December 2017	August 2017	December 2016	October 2016	September 2015	
1	Term Loan	350.0	350.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]BB B+ (Positive)	-	-	-	-	-
2	Fund Based Facilities	1300.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]BB B+ (Positive)	[ICRA]BB B+ (Positive)	[ICRA]BB B+ (Negative)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (Stable)	
3	Non-fund Based Facilities	2600.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A2 +	[ICRA]A2 +	[ICRA]A2 +	[ICRA]A2 +	[ICRA]A2 +	
4	Commercial Paper	250.0	-	[ICRA]A1	-	-	-	-	-	-	

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	December 2015	-	December 2023	200.0	[ICRA]A (Stable)
-	Term Loan	May 2016	-	April 2021	75.0	[ICRA]A (Stable)
-	Term Loan	April 2016	-	April 2021	45.0	[ICRA]A (Stable)
-	Term Loan	April 2016	-	May 2021	30.0	[ICRA]A (Stable)
-	Fund based long term	-	-	-	1300.0	[ICRA]A (Stable)
-	Non-fund based short term	-	-	-	2600.0	[ICRA]A1
-	Commercial Paper	-	-	7-365 days	250.0	[ICRA]A1

Source: Paradeep Phosphate Limited

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