

Madras Fertilizers Limited

March 22, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Fund based facilities	191.4	191.4	[ICRA]C; reaffirmed
Long Term, Proposed facilities	2.84	2.84	[ICRA]C; reaffirmed
Short Term, Non fund based facilities	330.0	330.0	[ICRA]A4; reaffirmed
Total	524.24	524.24	

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 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. As part of the restructuring proposal, the management expects waiver of the GoI loan repayments which could substantially improve the capital structure of the entity.

The rating, however, takes into consideration various measures being undertaken by the management to turnaround the company. MFL is in the final stages of monetisation of a large land parcel which would provide substantial cash inflows; this would be utilised towards the capital expenditure for the energy saving projects given that the energy consumption norms for urea units are continuously being tightened. The gas pipeline works have been completed and Ennore port's R-LNG terminal has also been recently commissioned providing fuel supply visibility for the company which is one of the few exempted units still operating with Naphtha as feedstock.

Outlook: Stable

Not applicable

Key rating drivers

Credit strengths

Strong sponsor profile with GoI (~60%) and Naftiran (~26%) as the promoters - The company operates one of 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 with reputed brand, wide dealer network and a leading market share in Tamil Nadu (~50%).

Credit challenges

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. In June 2015, GoI approved the continuation of the production of urea using naphtha as feedstock, till availability of gas. MFL has undertaken the conversion project and incurred most of the capex, but it could not switch over due to lack of gas availability. Ennore port's R-LNG terminal set up by IOC has been commissioned in March 2019 and hence the company is expected to switch over to gas as feedstock going forward.

Liquidity Position:

The cash flows have been negative over the years owing to the losses and high interest costs and hence the liquidity position remains stretched. The company operates its urea and complex units using the working capital lines sanctioned by its lenders; however, due to insufficiency of limits it continues to operate the complex fertiliser plant at very low capacity utilisation levels.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for fertilisers
Parent/Group Support	NA
Consolidation / Standalone	Standalone

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) – MFL

	FY 2017	FY 2018
Operating Income (Rs. crore)	1,400.2	1,617.1
PAT (Rs. crore)	-23.3	-44.8
OPBDIT/ OI (%)	5.6%	1.5%
RoCE (%)	8.7%	5.5%
Total Debt/ TNW (times)	-2.91	-3.06
Total Debt/ OPBDIT (times)	15.92	63.08
Interest coverage (times)	0.87	0.25

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sl. 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 FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016
				March 2019	January 2018	December 2016	-
1	Fund based	Long Term	191.4	[ICRA]C	[ICRA]C	[ICRA]C	-
2	Proposed fund based	Long Term	2.84	[ICRA]C	[ICRA]C	[ICRA]C	-
3	Non-fund based	Short Term	330.0	[ICRA]A4	[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: Instrument Details

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

Source: MFL

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