July 06, 2020

Chambal Fertilisers & Chemicals Limited: Rating assigned to enhanced Commercial Paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	3500.0	4500.0	[ICRA]A1+; assigned/outstanding
Total	**3500.0**	**4500.0**	

**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, 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 CFCL's G-III plant commissioned in January 2019 resulting in healthy growth in net cash accruals of the company to ~Rs. 1125 crore in FY2020 from Rs. 606 crore in FY2019 and the expectation of continuation of increased cash accruals going forward. The increased cash accruals will allow the company to comfortably meet the annual debt repayment obligations of ~Rs. 700 crore related to the term loans availed for the brownfield expansion of urea capacity. With operationalisation of the G-III plant the net profit of the company increased to Rs. 1224.3 crore in FY2020 as against Rs. 545.3 crore in FY2019. The interest coverage of the company moderated to 3.8x in FY2020 as against 5.1x in FY2019 as the interest related to the term loans which was getting capitalised prior to the commissioning of the project is now flowing through the profit & loss account. Going forward, ICRA expects the company's core margins to remain healthy due to regulated returns and efficient operations. The Covid-19 led lockdown that was implemented from March 23, 2020 did not affect the performance of the company owing to its fully automated plant and urea being part of the essential commodities.

The rating also factors in the vulnerability of the performance of CFCL to agro-climatic conditions, regulatory risks, and delay in subsidy receipts from GoI which result in high interest charges to fund the working capital borrowings and impact profitability. As the debt levels peaked at the end of FY2019, driven by the completion of the brownfield urea capacity expansion, leverage levels (Total Debt/OPBDITA) increased to 6.7x at the end of FY2019. The same has started moderating driven by increase in the operating profit and a reduction in the term debt post repayment of debt and stood at 5.1x at the end of FY2020.

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 ~9.4% market share in urea segment (as per FY2020 sales). CFCL has been growing its trading portfolio also and has cemented its position as one of the leading players of the fertiliser sector with total fertiliser volume sales of ~4.34 MMT (including urea and non-urea fertilisers). 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 FY2020 was around 24.5 MMT, as against domestic demand of ~33.6 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 Gadepan-I and Gadepan-II are some of the most energy efficient plants of the country and continue to have energy consumption well below their pre-set norms under NUP-2015. The plants have been able to achieve healthy capacity utilisation producing beyond re-assessed capacity for the past two years owing to efficient operations, favourable regulatory policies implemented by GoI i.e. gas pooling implemented in July 2015 and increase in IPP linked realisation for production beyond RAC from 85% of IPP to IPP + incidental charges. Achievement of energy consumption better than pre-set norms under NUP-2015 aids the operating profits. With the commissioning of Gadepan-III, CFCL has become the first entity to successfully operate a urea plant under New Urea Investment Policy-2012 (NIP-2012). The capacity utilisation of this plant has been 100% during FY2020 (capacity utilisation presently capped at 100% due to policy definition) and will add to the cash generated by the urea segment of CFCL. Due to the regulated nature of urea business, the urea operations provide stable cash flows. However, trading segment remains exposed to volatility in foreign exchange and international commodity prices.

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/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.

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 started witnessing improvement albeit at a slow pace.

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 position remains 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 at 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 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 1.34 MMTPA of urea capacity at its Kota facility taking the overall production capacity to ~3.06 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. The company also commissioned a SSP plant at Gadepan in FY2013 with a capacity of 0.2 MMTPA.

CFCL also has a 33.33% stake in Indo Maroc Phosphore SA (IMACID), Morocco, a major producer of phosphoric acid, apart from subsidiaries in the software and power business. CFCL exited its shipping business in H1 FY2018.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	10120.6	12206.0
PAT (Rs. crore)	545.3	1224.3
OPBDIT/OI (%)	12.6%	15.6%
RoCE (%)	12.6%	14.5%
Total Outside Liabilities/Tangible Net Worth (times)	3.3	2.7
Total Debt/OPBDIT (times)	6.7	5.1
Interest Coverage (times)	5.1	3.8
DSCR	3.8	2.3

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
					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+

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper	-	-	7-365 days	4500.00	[ICRA]A1+

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

Analyst Contacts

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Varun Gogia
+91 124 4545 373
varun.gogia@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 3300
shivkumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999