October 20, 2022

Rashtriya Chemicals and Fertilizers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based Term Loan	4,500.00	4,500.00	[ICRA]AA (Stable); reaffirmed
Long Term – Fund Based/ Cash Credit	600.00	600.00	[ICRA]AA (Stable); reaffirmed
Long Term – Non-Convertible Debentures	1,000.00	1,000.00	[ICRA]AA (Stable); reaffirmed
Short Term: Commercial Paper Programme	3,000.00	3,000.00	[ICRA]A1+; reaffirmed
Total	**9,100.00**	**9,100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation considers the established position of Rashtriya Chemicals and Fertilizers Limited (RCF or the company) as one of the largest urea manufacturers in India with vertically integrated operations in fertilisers and chemicals coupled with healthy operating efficiency of the company's urea operations, reflected in the high plant utilisation levels. The ratings continue to factor in the high financial flexibility of the company by virtue of the large sovereign ownership and its ability to access the debt markets at competitive rates to support its liquidity profile.

ICRA takes note of the improvement in the company's financial profile in FY2022 and Q1 FY2023, aided by a healthy increase in profit contribution from the industrial chemical segment, while periodic increases in subsidy and timely payments of the same supported the fertiliser segment, despite the sharp increase in natural gas and other raw material prices.

Post the tightening of pre-set energy norms for the Trombay unit from October 2020, the profitability of the urea business has been impacted to an extent. However, the impact is expected to be offset to an extent by the increase in energy efficiency from several energy saving projects that the company is undertaking, although some of the projects have witnessed delays.

The ratings, however, are constrained by the vulnerability of the fertiliser business to regulatory and agro-climatic risks. The profitability of the chemical division is vulnerable to commodity price cycles, exchange fluctuations, potential reduction of import duty and the high working capital intensive nature of fertiliser operations. While the subsidy payments in recent years have been timely and have witnessed periodic hikes, inadequate increase in subsidies or delays in payments will have an adverse impact on the company's financial profile.

The company has large capex plans in the medium term for modernisation, backward integration as well as product diversification, which will be partly debt funded, exposing the company to project execution risks and may put some pressure on the credit metrics. Further, RCF is also one of the joint venture (JV) partners with a 29.67% stake in the revival project of the Talcher unit of Fertiliser Corporation of India (FCI), with the other stakeholders being Coal India and GAIL apart from FCI. The company's share of equity investment in the project is about ~Rs. 1,200 crore of which the company has already contributed ~Rs 800 crore and the balance is to be infused over the next three years. ICRA further notes that the Government of India (GoI) is looking to divest a 10% equity in RCF through an offer for sale (OFS). Any reduction in the GoI's stake below 51% would be negative for the rating and remains a key rating sensitivity.

The Stable outlook reflects ICRA's expectation that the credit profile of RCF in the near to medium term will continue to be supported by its market position in the fertiliser segment and its strategic importance to the GoI. Further, the favourable demand and expected healthy margins for industrial chemicals in the near term will also support the company's financial profile.

Key rating drivers and their description

Credit strengths

Large sovereign ownership and established position as one of the largest urea manufacturers – The GoI remains the largest stakeholder with a 75% share in RCF. The large sovereign ownership results in a high degree of financial flexibility for the company. The company has access to the debt markets at competitive rates to support its liquidity profile. Further, RCF remains one of the largest urea manufacturers in India with a market share of ~9% in FY2022. RCF has an established position in about 10 states in the western, central and southern parts of India and also has a significant presence in urea trading, which, along with products like diammonium phosphate (DAP) and muriate of potash (MOP) helps to provide a wider basket of products to farmers.

Product diversity and vertically integrated operations – The operations of RCF are characterised by a high level of vertical integration across its fertilisers and chemicals, thereby allowing high value addition and diversification. The strength of the company lies in its product diversity and ability to switch between product streams in line with the market conditions.

Healthy operating efficiency for urea operations – The company has maintained high operating efficiency at the Thal and Trombay units with high capacity utilisation. However, the tightening of energy norms from October 2020 (to 6.50 Gcal/MT) has negatively impacted the profitability at Trombay due to reduction in energy savings; however, the company is revamping projects to reduce its energy consumption levels which has partly negated the aforementioned impact over the medium term. Further, RCF is in discussions with the Department of Fertilisers (DoF) for consideration of a minimum fixed cost of Rs. 2,300 /MT and any resolution in favour of the company would further strengthen its profitability and liquidity position.

Credit challenges

Sensitivity of cash flows to delays in subsidy receipts and other regulatory risks – Subsidy inflow from the GoI had remained outstanding for nearly 5-6 months during the past few years which had impacted the cash flows of the fertiliser companies and resulted in increased working capital debt requirements. However, in FY2021, as part of a Rs. 65,000-crore subsidy announced under the Aatma Nirbhar Bharat Package 3.0 for the fertiliser sector, RCF received additional subsidy which substantially reduced its subsidy arrears and reduced the short-term borrowings. Consequently, the company's debt coverage metrics have strengthened. The subsidy receipts from the Government were timely in FY2022 and Q1 FY2023. Further, the GoI has continued to extend the required financial support to this sector. While initially a subsidy payout of Rs. 105,222 crore was budgeted for FY2023, the Government has approved an additional payout of Rs. 110,000 crore in May 2022 to account for the unprecedented rise in raw material prices and imported fertiliser rates. Nevertheless, ICRA notes that the fertiliser sector, being highly regulated, remains vulnerable to the changes in regulations by the GoI.

Susceptible of profitability to fluctuations in natural gas prices – Natural gas remains the key raw material for the company to manufacture urea and industrial chemicals. While the profitability from the urea segment remains unaffected by the increase in natural gas prices, the profitability from industrial chemicals remains susceptible to the fluctuations in natural gas prices.

Large debt-funded capex plans over the medium term – RCF is one of the JV partners for a greenfield coal gasification-based urea plant at Talcher (Odisha) which would entail a sizeable equity infusion of about ~Rs. 1,200 crore as well as expose the company to project execution risks. The company has already contributed ~Rs. 805 crore as of March-end 2022, and the balance is to be infused over the next three years. The company has plans for capex/investment in JVs over the next few years, for which ~Rs. 340-360 crore will be incurred in FY2023 and ~Rs. 590-610 crore in FY2024, to be funded through a mix of debt and internal accruals. As the internal accruals of the company are not adequate, most of these investments are likely to be debt-funded and will yield returns only over the longer term, which may put some pressure on its key credit metrics over the medium term.

Environmental and Social Risks

Global efforts towards decarbonisation and focus on impact of fertiliser use on soil health may lead to development of new types of fertilisers and lead to lower demand for conventional fertilisers. However, in India, ICRA does not expect any material impact on the conventional fertiliser offtake in the near to medium term given that the new age fertilisers, whenever introduced, are expected to be priced at a premium unless GoI provides subsidy support for these as well. Additionally, the acceptance among farmers will also take time. Fertiliser manufacturing, particularly urea, has a significant carbon footprint as natural gas is the key raw material for synthesis of hydrogen which goes into production of ammonia and thereafter urea. With the GoI exploring the passing of a mandate for the procurement of green hydrogen by refineries and fertiliser plants, it will lead to additional cost burden on urea manufacturers. ICRA expects the GoI to provide adequate policy support to the sector if it decides to mandate the sector to meet a part of its hydrogen requirement through the green route.

With rising awareness about the use of the chemical fertilisers in farming and growing clamour for organic produce can impact the fertilizer offtake. Although currently, the productivity in organic farming remains low and thus the near-term risk to fertilizer offtake remains low. Going forward, in a scenario of technological breakthroughs resulting in organic alternatives being developed for farming which can achieve equal or better productivity will pose significant threat to fertilizer offtake, although the threat remains long term in nature.

Liquidity position: Adequate

The company enjoys high financial flexibility due to its sovereign ownership, resulting in easy access to the debt markets which lends comfort from a credit perspective. The company has a comfortable cushion in the form of unutilised working capital limits as indicated by the low utilisation of 16% of the sanctioned limits and 24% of its drawing power for the 12-month period ended June 2022. The company has plans for capex/investment in JVs over the next few years, for which ~Rs. 340-360 crore will be incurred in FY2023 and ~Rs. 590-610 crore in FY2024, to be funded through a mix of debt and internal accruals. The repayment obligations are ~Rs. 240-245 crore in FY2023 and ~Rs. 120-125 crore in FY2024. However, the liquidity profile of RCF is expected to remain adequate due to expected healthy cash accruals in FY2023, availability of unutilised limits and availability of unencumbered cash and bank balance (~Rs. 1107 crore as on March 31, 2022).

Rating sensitivities

Positive factors – Substantial improvement in profit margins amid a healthy working capital intensity and adequate liquidity profile on a sustained basis could lead to an improvement in ratings.

Negative factors – Sustained decline in revenues and margins, or any stretch in the working capital position of the company owing to a receivables period of more than 150 days will be negative for credit rating. Further, any deterioration in the debt metrics owing to any large debt-funded capex/investments or weak profitability will put pressure on the rating. Additionally, reduction in the GoI's stake below 51% could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser Entities Rating Methodology for Entities in the Chemical Industry
Parent/Group support	**Parent: Government of India** The ratings factor in the parentage from GoI and strategic importance of RCF for GoI given the company is a major fertiliser supplier in the country.

Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rashtriya Chemicals and Fertilizers Limited. As on March 31, 2022, the company had 3 JVs, that are enlisted in Annexure-II

About the company

Rashtriya Chemicals & Fertilizers Limited (RCF), established in 1978, has a diversified product portfolio of urea (~70% of overall sales), complex fertilisers (~15%), traded fertilisers and industrial chemicals. The company's industrial chemicals portfolio comprises 15 products such as ammonium nitrate, nitric acid and methylamines. RCF has two plants in Maharashtra – one each at Trombay and Thal. The Thal unit is primarily engaged in the production of urea (capacity of 2 mmtpa) besides a few industrial chemicals. The Trombay unit manufactures a wide range of industrial products, complex fertilisers (capacity of 0.66 mmtpa) and urea (capacity 0.33 mmtpa). The Government of India (GoI) holds a 75% stake in the company.

In FY2022, the company reported a profit after tax (PAT) of Rs. 704.4 crore on an operating income (OI) of Rs. 12,812.2 crore, while it reported PAT of Rs. 381.9 crore on an OI of Rs. 8,281.2 crore in FY2021.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	8281.2	12812.2
PAT	381.9	704.4
OPBDIT/OI	9.1%	7.7%
PAT/OI	4.6%	5.5%
Total outside liabilities/Tangible net worth (times)	0.6	0.8
Total debt/OPBDIT (times)	2.8	3.0
Interest coverage (times)	4.2	7.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Oct 20, 2022	Oct 22, 2021	Mar 26, 2021	Feb 24, 2021	Mar 12, 2020	July 23, 2019
1	Cash Credit	Long term	600.00		**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)
2	Term Loan	Long term	4,500.00	1,043.0	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)
3	Non Convertible Debenture	Long term	1,000.00	500.00	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)
4	Commercial Paper Programme	Short term	3,000.00	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term – Fund Based Term Loan	Simple
Long-Term – Fund based/ Cash Credit	Simple
Long-Term – Non-Convertible Debentures	Simple
Short term: Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE027A07012	NCD	FY2021	6.59%	FY2026	500.0	[ICRA]AA (Stable)
INE027A08010	NCD	FY2022	6.59%	FY2025	300.0	[ICRA]AA (Stable)
Not listed yet	NCD	NA	NA	NA	200.0	[ICRA]AA (Stable)
NA	Cash Credit	NA	NA	NA	600.0	[ICRA]AA (Stable)
NA	Term Loan 1	FY2018	NA	FY2029	200.0	[ICRA]AA (Stable)
NA	Term Loan 2	FY2021	NA	FY2024	75.0	[ICRA]AA (Stable)
NA	Term Loan 3	FY2021	NA	FY2028	130.0	[ICRA]AA (Stable)
NA	Term Loan 4	FY2022	NA	FY2023	47.0	[ICRA]AA (Stable)
NA	Proposed term loans	NA	NA	NA	4,048.0	[ICRA]AA (Stable)
Not placed	Commercial Paper	NA	NA	1-365 days	3,000.0	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
FACT-RCF Building Products Ltd. (FRBL), Kochi	50.00%	Equity Method
Urvarak Videsh Limited (UVL)	33.33%	Equity Method
Talcher Fertilizers Limited (TFL)	33.33%	Equity Method

Source: Company

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