June 20, 2019

Chambal Fertilisers & Chemicals Limited: [ICRA]A1+ rating assigned to enhanced Commercial Paper Programme

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial Paper	3000.00	3500.00	[ICRA]A1+; assigned/outstanding
Total	**3000.00**	**3500.00**	

Rationale

The assigned rating takes into account the favourable demand prospects for urea in India as the demand far outstrips domestic supply, established position of CFCL as the largest private urea manufacturer in the domestic industry with overall third largest urea player by capacity, healthy operating performance of the plants characterised by healthy production and energy efficiency levels and healthy ramp-up of the new urea capacity with completion of project within the envisaged costs. The rating also factors in the significant increase in the scale and profits of the company owing to the healthy ramp-up of the newly commissioned urea capacity. The net profit of the company increased to Rs. 545.3 crore in FY2019 vis-à-vis Rs. 476.5 crore in FY2018 driven by an increase in the operating profit from the urea sales partially offset by the increase in the interest charges during the year and a one-time write-off of Rs. 197 crore related to the revised fixed costs under Modified New Pricing Scheme-III (Modified NPS-III) which are yet to be paid out by the GoI. Urea operations witnessed healthy capacity utilisation and energy savings during FY2019 which aided profitability. The interest coverage of the company moderated to 5.1x in FY2019 vis-à-vis 5.5x in FY2018 driven by an increase in the interest outgo as the working capital borrowings remained elevated to fund the delay in subsidy receipts from the GoI. Additionally, the subsidy for newly commissioned urea capacity also remained unpaid in FY2019 resulting in elevated working capital borrowings and increased interest outgo. The gearing of the company increased to 2.6x at the end of FY2019 as against 1.9x at the end of FY2018 while Total Debt/OPBDITA has increased to 6.9x at the end of FY2019 as against 5.5x at the end of FY2018, driven by higher working capital borrowings and long term debt availed for execution of the brownfield capacity expansion. Going forward, ICRA expects the company’s core margins to remain healthy due to regulated returns and efficient operations.

The rating takes into account the vulnerability of the performance of CFCL to agro-climatic conditions, regulatory risks, and delay in subsidy receipts from the GoI which result in high interest charges to fund the working capital borrowings and impact profitability for CFCL. While the credit metrics have moderated owing to significant debt funded capex, the same are expected to improve in the medium term with significant cash generation expected from the newly commissioned urea capacity. Delay in subsidy receipts will continue to keep the working capital borrowings elevated, which will keep the debt metrics subdued for the company in near to medium term.

Key rating drivers

Credit strengths

Established position of CFCL in the domestic fertiliser industry: CFCL is the largest private sector urea manufacturer with 3.06 MMTPA of installed capacity and third largest urea player overall. CFCL has ~8.2% market share in urea segment (as per FY2019 sales) which is expected to go up further post commissioning of brownfield urea capacity. CFCL has also been growing its trading portfolio and has cemented its position as one of the leading players of the fertiliser sector with total fertiliser volume sales of ~3.6 MMT (including urea and non-urea fertilisers). 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 as well.

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 FY2019 was around 24.0 MMT, as against domestic demand of ~31.7 MMT which resulted in significant dependence on imports to meet the shortfall. Thus, the demand risk for 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. CFCL's plants have been able to maintain energy consumption better than pre-set norms under NUP-2015, providing healthy contribution to operating profits. With the commissioning of Gadepan-III, CFCL has become first entity to successfully operate a urea plant under New Urea Investment Policy-2012 (NIP-2012). The capacity utilisation of this plant is expected to be healthy 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 while trading segment provides support to profitability. 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.

Credit challenges

Vulnerability of profitability of the fertiliser sector to regulatory policies and agro-climatic conditions: Profitability of the fertiliser sector remains vulnerable to agro climatic conditions as a major part of agriculture is still dependent on monsoon. Profitability of the sector also remains vulnerable to the regulatory policies of GoI as has been witnessed in tightening of energy norms under NUP-2015, 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 kept profitability subdued. 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.

Large debt funded capex coupled with elevated working capital borrowings to keep the credit metrics subdued: 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 will start 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 have been on an uptrend in recent months owing to rising energy costs and uncertainty over exports from Iran. However, in the medium-term international urea prices are expected to remain subdued owing to 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 urea prices and rising natural gas prices the contribution from production beyond RAC 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:

CFCL's liquidity position is supported by expectations of healthy cash generation from existing as well as new urea operations, large unutilised bank limits and its ability to raise funds from the capital markets at competitive rates and at short notice. Going forward, the cash accruals in FY2019-20 are expected to be around Rs. 1000-1100 crore driven primarily by the newly commissioned urea capacity. Against the cash accruals the company has repayment obligations of around Rs. 400 crore in the year. The company will be undertaking only maintenance capex in then near to medium term as it has recently concluded a major capital expenditure program. The company utilises mostly commercial paper program for funding its working capital requirements and the bank limits remain largely unutilised providing liquidity to the company.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector
Parent/Group Support	NA
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 has 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 plants are 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 its own SSP plant in 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 and is now present only in the fertiliser segment.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	7,471.5	10,094.5
PAT (Rs. crore)	476.5	545.3
OPBDIT/OI (%)	11.6%	12.3%
RoCE (%)	17.9%	12.6%
Total Debt/TNW (times)	1.9	2.6
Total Debt/OPBDIT (times)	6.5	6.9
Interest coverage (times)	5.7	5.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs Crore)**	**Date & Rating June 2019**	**Date & Rating November 2018**	**June 2018**	**May 2018**	**Date & Rating in FY2018 Oct 2017**	**Date & Rating in FY2017 Oct 2016**
Commercial Paper	Short Term	3500.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[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
-	Commercial Paper	-	-	7-365 days	3500.00	[ICRA]A1+

Annexure-2: List of entities considered for consolidated analysis

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About ICRA Limited:

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