

## Press Release

### Madras Fertilizers Limited

January 02, 2020

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 494.20 Cr.
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4+

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 494.20 crore bank facilities of Madras Fertilizers Limited (MFL). The outlook is 'Stable'.

The rating takes into account the majority ownership of Government of India in MFL, the strategic importance of the fertilizer sector to the Indian economy, and the recent upgradation in the manufacturing process from Naphtha based feedstock to R-LNG (gas based), which is likely to improve its long term operating performance. However, the rating is constrained due to its persistently weak financial position and its inability to service the outstanding loans from Gol, its primary shareholder. While the liquidity position of the MFL remains challenging, Acuité has noted that company has been able to service its existing obligation on the bank facilities in timely manner. Acuité believes that the existing Gol loan restructuring proposal albeit delayed, will be completed shortly and will involve part/full waiver of interest apart from the long tenure of principal repayment. This is expected to improve the capital structure and the financial position of MFL significantly. In Acuité's opinion, the Gol loan has certain elements of subordination given the government's willingness to support the operations of MFL through subsidy payments at par with other fertiliser producers and facilitation of the feedstock conversion from naphtha to gas. Therefore, a different approach vis-à-vis the rating criteria has been taken while assigning the rating for the bank loan facilities of MFL.

Madras Fertilizers Limited (MFL) based in Tamil Nadu was incorporated in 1966 as a joint venture between GOI and AMOCO India incorporated of U.S.A (AMOCO) in accordance with the Fertilizer Formation Agreement executed with equity contributions of 51 percent and 49 percent 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 shareholders are Government of India - 59.50 percent; NIOC - 25.77 percent; Public - 14.73 percent. The company is engaged in the manufacturing of Ammonia, Urea, Complex Fertilizers and Biofertilizers. The company is an ISO-9001:-2008 and ISO-14001:2004 certified company. MFL has its plant facilities and headquarters located on 329 acres of freehold land at Mandali, about 20 km north of Chennai city.

### Analytical Approach

Acuité has considered standalone business and financial risk profiles of MFL along with the support provided by Gol to arrive at the rating.

## **Key Rating Drivers**

### **Strengths**

- **Established track record in fertiliser sector and Strategically important unit for Gol**

MFL has established presence of over five decades in manufacturing of Ammonia, Urea, Complex Fertilizers and Biofertilizers since 1966. The company has established its own brand 'VIJAY' providing various fertilizers to the farmers in South India at subsidised rate as prescribed by Gol. MFL operates one of the vintage urea units in the country and is promoted as an Indo-Iranian Joint Venture (with Naftiran, NIOC, being the shareholder). Further, company is backed by the supported of Government of India (Gol) which owns 59.50 percent stake and partly by National Iranian Oil Company (NIOC), an 100 per cent subsidiary of Government of Iran which owns 25.77 percent stake in MFL. Throughout its operating history, Gol has ensured the timely support in form of financial and technical assistance through subsidies, loans and regulatory reforms. The company has been receiving subsidy from Gol on regular basis marked by Rs.1313.25 crore in FY2019 as against Rs.1251.84 crore in the previous year. Acuite believes that the company will continue to benefit through the strong parentage, its market position in South India in fertilisers and establish presence in industry of over five decades. However, timely support from Gol in form of subsidy and restructuring of Gol loan which may include full/partial interest waiver will remain a key monitorable.

- **Significant market share and location advantage**

The company is one of the largest manufacturers of urea in South India with reputed brand, an established dealer network and a leading market share in Tamil Nadu of 50 percent. MFL also has logistical advantages being present in the vicinity of Chennai Petrochemical Corporation Limited's (CPCL) refinery, from where naphtha is being sourced. The company is also in the vicinity of Ennore port which has been developed by Indian Oil Corporation (IOC) from where R-LNG will be imported to support the feedstock conversion from naphtha to gas.

### **Weaknesses**

- **Continuing uncertainty on Gol loan repayment**

MFL had availed loan from Gol during the revamp project completed in the 1990s. Gol extended its support by infusion of loans for expansion and revamp of the company till 2012-13. Total Loans of Rs. 1355.60 crores are outstanding as on 31 March 2019 including Principal of Rs. 554.24 crores, Interest of Rs. 618.21 crores and Rs. 183.15 crores penal interest as on 31st March 2019. Due to the lower than expected operating performance, weak financial risk profile and weak liquidity, MFL has not been able to serve the repayments for the loans extended by Gol. However, MFL is under discussion for restructuring of Gol loan seeking waiver of Interest and rescheduling the repayment of principal. Acuite believes that the existing Gol loan restructuring proposal is expected to be completed shortly and is expected to involve part/full waiver of interest. This is expected to improve the capital structure and liquidity of the MFL significantly over near to medium term.

- **Poor operating performance and high energy consumption**

The company is among the one of the oldest players with operational track record of more than five decades 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 had mandated liquid fuel-based players like MFL to switch over to gas feedstock. However, it could not switch over in the past periods due to lack of gas availability. Recently company has incurred capex and completed project which was necessary to switch over to gas feedstock in July 2019. The feedstock conversion has been facilitated by the R-LNG terminal set up by IOC in the nearby Ennore port in March 2019. This, however, has led to plant closure for three months ending July 2019, leading to negative cash flows during the first two quarters of FY2020. The company has been incurring losses from the last two years and owing to weak operating efficiencies and high interest provisions on the Gol loan. While the change in the feedstock is expected to improve the

operating efficiency and the operating margins substantially, the stabilisation of the plant under the new process needs to be seen.

### Liquidity Position: Stretched

The liquidity of the company stood stretched marked by weak operating cash flows derived from an adverse cost structure and high interest costs. The company operates its urea and complex fertiliser units using the working capital lines sanctioned by its lenders. However, due to inadequacy of limits, raw material procurement is constrained thereby leading to the complex fertiliser plant operating at very low capacity utilisation levels. The bank limits stood 75.00 percent utilised for the last six months ending November 2019. The current ratio stood low at 1.20 times as on 31 March 2019.

### Rating Sensitivities

- Timely completion of restructuring proposal
- Improvement in operating efficiency
- Any significant change in shareholding

### Outlook: Stable

Acuite believes that MFL will continue to benefit from the established market position and the support from GoI. The outlook may be revised to 'Positive' in case of a significant increase in capacity utilisation levels along with improved operating and profitability margins. The outlook may be revised to 'Negative' in case of any further deterioration in liquidity position, driven by lower than expected cash accruals and larger-than-expected debt-funded capital expenditure or unexpected delays in the restructuring of the GoI loan.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1598.43	1637.85
PAT	Rs. Cr.	-80.85	-44.81
PAT Margin	(%)	-5.06	-2.74
Total Debt/Tangible Net Worth	Times	-2.87	-3.06
PBDIT/Interest	Times	0.53	0.76

### Status of non-cooperation with previous CRA (if applicable)

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Not Applicable

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	191.40	ACUITE BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	230.00*	ACUITE A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	72.80	ACUITE BB / Stable

\*Bank Guarantee as sub limit of Rs.150.00 crores.

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### About Acuité Ratings & Research:

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