Press Release

Madras Fertilizers Limited

July 29, 2020

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 513.30 Cr. (Enhanced from Rs. 494.20 cr.)
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** and reaffirmed the short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 513.30 crore (enhanced from 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). This is likely to improve company's long term operating performance, the same is visible through a decline in furnace oil cost and raw material cost in FY2020. However, the rating is constrained due to its persistently weak financial position and its inability to service the outstanding loans from GoI, its primary shareholder. While the liquidity position of the MFL remains challenging, Acuité has noted that the company has been able to service its existing obligation on the bank facilities in timely a manner. Acuité believes that the existing GoI loan restructuring proposal albeit delayed in the past and currently due to COVID-19, will be completed shortly and will involve part/full wavier 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 GoI 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 naptha 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 Biofertilisers. 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 Manali, about 20 km north of Chennai city.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of MFL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record in fertiliser sector and strategically important unit for GoI**
  MFL has established presence of over five decades in the manufacturing of Ammonia, Urea, Complex Fertilizers and Biofertilisers since 1966. The company has established its own brand 'VIJAY' providing various fertilsers to to the farmers in South India at subsidised rate as prescribed by GoI. 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 (GoI) which owns 59.50 percent stake and partly by National Iranian Oil Company (NIOC), a 100 per cent subsidiary of Government of Iran which owns 25.77 percent stake in MFL. Throughout its operating history, GoI has ensured the timely support in the form of financial and technical assistance through subsidies, loans and regulatory reforms. The company has been receiving a subsidy from GoI on a regular basis marked by Rs. 1,004.36 crore in FY2020 and Rs.1313.25 crore in FY2019 as against Rs.1251.84 crore in the previous year. The decline is subsidised due to shifting of Naptha based feedstock to RLNG in August 2019, which has lowered raw material cost. Acuité believes that the company will continue to benefit through the strong parentage, its market position in South India in fertilisers and establish a presence in the industry of over five decades. However, timely support from GoI in the form of subsidy and restructuring of GoI 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 naptha to gas.

Weaknesses

- **Continuing uncertainty on GoI loan repayment**
  MFL had availed loan from GoI during the revamp project completed in the 1990s. GoI extended its support by infusion of loans for expansion and revamp of the company till 2012-13. Total Loans of Rs. 1343.35 crores are outstanding as on 31 March 2020 including Principal of Rs. 554.24 crores, Interest of Rs. 657.24 crores and Rs. 183.15 crores penal interest as on 31st March 2020. 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 GoI. However, MFL is under discussion for the restructuring of GoI loan seeking a waiver of interest and rescheduling the repayment of principal. Acuité believes that the existing GoI loan restructuring proposal is expected to be completed shortly and is expected to involve part/full wavier 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**
  MFL is one of the 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. The company has incurred capex and completed project which was necessary to switch over to gas feedstock. However, it could not switch over due to lack of gas availability. Ennore port's R-LNG terminal set up by IOC was commissioned in March 2019 and hence the company has been able to switch over to gas as feedstock going forward. The plant was closed for the first quarter of FY2020 due to transformation to R-LNG from Naphtha, leading to a decline in revenues. Further, company is making losses from last three years and generating

negative cash flows over the years owing to the losses and high-interest costs.

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 gross current assets stood at 287 days as on 31 March 2020 as against 260 days as on 31 March 2019. The bank limits stood 90.00 percent utilised for the last six months ending June 2020. The current ratio stood low at 1.10 times as on 31 March 2020.

Rating Sensitivities

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

Outlook: Stable

Acuité 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	FY20 (Provisional)	FY19(Actual)
Operating Income	Rs. Cr.	1,339.36	1598.43
PAT	Rs. Cr.	-69.91	-80.85
PAT Margin	(%)	-5.22	-5.06
Total Debt/Tangible Net Worth	Times	-3.18	-2.87
PBDIT/Interest	Times	0.57	0.53

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Jan-2020	Letter of Credit	Short Term	230.00*	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	72.80	ACUITE BB / Stable (Assigned)
	Cash Credit	Long Term	191.40	ACUITE BB / Stable (Assigned)

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

***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 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	230.00*	ACUITE A4+ (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	72.80	ACUITE BB/ Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	19.10	ACUITE BB/ Stable (Assigned)

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

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About Acuité Ratings & Research:

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