Press Release

Madras Fertilizers Limited

October 28, 2021

Rating Reaffirmed

Total Instruments Rated*	Rs. 513.30 Cr
Long Term Rating	ACUITE BB/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its 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.513.30 Cr bank facilities of Madras Fertilizers Limited (MFL). The outlook is **'Stable'**.

Rationale for rating reaffirmation

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, upgradation in the manufacturing process from Naphtha based feedstock to R-LNG (gas based) and the improvement in the scale of operations and profitability margins in FY2021. MFL has witnessed improvement in operating income despite the challenging external environment due to the onset of global pandemic in FY2021, on the back of continuous and repetitive orders from its customers by recording an operating income of Rs.1,533.87 Cr as against Rs.1,293.62 Cr in the previous year. The improvement in operating income is on account of increase in volume of Urea sold by 48 percent. The company maintained its performance in FY2022 as evident from the operating income generated in Q1 of FY2022. The operating income was recorded at Rs.494.85 Cr in first quarter of FY2022 against Rs.213.16 Cr in Q1 of FY2021. MFL has demonstrated improvement in profitability margins and recorded operating profit (EBITDA) margin and net profit margin of 8.96 per cent and 0.19 per cent respectively, in FY2021 as against (0.01) percent and (9.68) per cent, respectively, in FY2020. The improvement is on account of increase in capacity utilization, decrease in overheads and power cost.

However, the rating is constrained due to its below-average 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 company has been able to service its existing obligation on the bank facilities in timely manner. Acuité believes that the existing GoI loan restructuring proposal albeit delayed in past and currently due to COVID-19, will be completed in near term and will involve part/full wavier of interest apart from the extension of 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.

About the Company

Madras Fertilizers Limited (MFL) based in Tamil Nadu was incorporated in 1966 as a joint venture between Government of India (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 Bio-fertilizers. 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 the MFL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record in fertiliser sector and strategically important unit for GoI**
  MFL has establish presence of over 5 decades in manufacturing of Ammonia, Urea, Complex Fertilizers and Bio-fertilizers since 1966. The company has established its own brand 'VIJAY' providing various fertilizers to the farmers in South India at subsidized 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 form of financial and technical assistance through subsidies, loans and regulatory reforms. The company has been receiving subsidy from GoI on regular basis marked by Rs.1,147.25 Cr in FY2021 as against Rs.940.84 Cr in the previous year. The improvement is subsidy is due to increase in sales volume of Urea in FY2021 against FY2020.
  Acuité believes that the company will continue to benefit through the strong parentage, its market position in South India in fertilizers and establish presence in industry of over five decades. However, timely support from GoI in 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 image among the customers, an established dealer network and a leading market share in Tamil Nadu of 25.32 percent in terms of Neem coated Urea. MFL also has logistical advantages being present in the vicinity of Chennai Petrochemical Corporation Limited's (CPCL) refinery, from where naphtha was sourced. The company is in the vicinity of Ennore port which has been developed by Indian Oil Corporation (IOC) from where R-LNG is being imported to support the feedstock conversion from naphtha to gas.

- **Improvement in financial risk profile in FY2021**
  MFL's financial risk profile is below-average, marked by a negative networth and gearing along with improving debt protection metrics. The EBITDA margins of the company improved to 8.96 per cent in FY2021 against 0.01 in FY2020. The improvement is attributable to decrease in power cost and other overheads and increase in subsidy received from the government due to improvement in volume of urea sold during the period. The PAT margins of the company has improved to 0.19 per cent in FY2021 in comparison to (9.68) per cent in FY2020. The improvement in profitability levels has led to marginal improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.32 times and 0.11 times, respectively in FY2021 as against 0.10 and 0.01 times, respectively in the previous year. The DSCR is below unity on account of classification of GoI's loan outstanding principal amount and accrued interest amount into current portion of long term debt.
  The net worth of the company stood at Rs.(695.23) Cr as on 31 March, 2021 as against Rs.(729.64) Cr as on 31 March, 2020. The improvement is on account of accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands at (1.98) times as on 31 March, 2021 as against (2.47) times as on 31 March, 2020, the improvement is on the significant decrease in short term debt due to the moderate working capital intensive nature of the company. TOL/TNW (Total outside liabilities/Total net worth) stands negative at (2.74) times as on 31 March, 2021 against (2.94) times in previous year. High TOL/TNW is on account of presence of high leverage position of the company and presence of deposit from dealers of amount Rs.89.49 Cr.
  The total debt of Rs.1,377.98 Cr as on 31 March, 2021 consist of long-term debt of Rs.25.85 Cr, Unsecured loans of Rs.1.06 Cr, short term debt of Rs.97.51 Cr and maturing portion of long term borrowings of Rs.1,253.56 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.02 times in FY2021 as against (0.05) times in FY2020.
  Acuité expects the financial risk profile to remain stable over the medium to long term on account of established operations of the company and support from GoI.

- **Capex proposal underway for captive power plant and venture into new product**
  MFL, a large scale manufacturer of fertilizer, depends majorly on state board for the energy requirement. However, the company plans to achieve uninterrupted, sustained, energy efficient operation of the manufacturing plant without any interruptions. MFL proposes to setup a 20 MW gas-based power plant with Gas turbine along with Heat recovery by steam generation (HRSG). The funding for the proposal for the capex is expected to be funded through sale of vacant Land in Guindy and Manali and rest through internal accruals. MFL is in the process of getting permission from the Department of Fertilizers (DoF) to do trading to augment their revenue. Trading of fertilizer products and Collaborations / Diversification in the

field of manufacturing presenting an opportunity which will be explored based on the financial position of the company. Acuité believes that the capex towards captive power plant and diversification would aid in the business and financial risk of the company over the medium term.

Weaknesses

- **Working capital operations marked by moderate GCA days**
  MFL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 165-257 days over the last 3 years ending March 31, 2021. The GCA days are majorly marked by moderate inventory and debtor days. The moderate GCA days of 165 days as on March 31, 2021 is on account of debtors days of 280days. However, the receivables collection has improved as evident from reduction in debtors to Rs.293.31 Cr in FY2021 as against Rs.521.74 Cr in FY2020. These are partially offset by creditor days at 113 days as on March 31, 2021. The moderate GCA cycle has led to moderate utilization of around 67 per cent of consolidated working capital requirement bank lines of Rs.401.40 Cr over the past 7 months ending July, 2021. Acuité believes that the operations of the MFL will remain moderately working capital intensive on account of nature of industry and dependence on the timely subsidy payment from the GoI.

- **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 until 2012-13. The total loans from GoI outstanding as on 31 March 2021 stands at Rs.1,507.41 Cr, including Principal of Rs.554.24 Cr, Interest of Rs. 711.82 Cr and penal interest of Rs.241.35 Cr. Over the years, 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 restructuring of GoI loan seeking waiver of Interest and rescheduling the repayment of principal. Acuité believes that the existing GoI loan restructuring proposal is expected to be completed in near term 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.

- **Revenue profile susceptible to agro climatic risk and government regulation**
  Agriculture sector in India remains vulnerable to the vagaries of the monsoon. Any adverse movement in monsoon results in volatility in the sales and profitability of the fertilizer sector. Further, fertilizer industry in India is highly regulated in nature with intervention of the Government of India (GoI) in fixation and release of the subsidy amount. Moreover, urea – the other important fertilizer in the country – continues to be regulated. Additionally, delay in disbursement of subsidy results in higher reliance on short-term working capital debt, leading to high interest costs and thus, remains a key rating sensitivity factor. Acuité believes that the company's business profile and financial profile can be adversely impacted on account of presence of inherent risk in the fertilizers sector.

Liquidity Position: Stretched

MFL's liquidity is stretched marked by insufficient generation of net cash accruals in FY2021 to its maturing debt obligations and low level of unencumbered cash and bank balance. The company has generated cash accruals in the range of Rs.(93.64)-34.01 Cr during last three years ending FY2021 as against its long term debt obligations of Rs.1,078.25-1,253.56 Cr for the same period. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 165 days as on March, 2021 as compared to 243 days as on March, 2020. The current ratio stood at 0.40 times as on 31 March 31 2021 against 0.46 in previous year and the fund based limit remains utilized at 58 per cent over the 7 months ended July, 2021. MFL's non-fund based working capital limits utilization has been around 74 per cent over the last 7-months period ending July, 2021. The company maintained nil unencumbered cash and bank balances as on March 31, 2021 against Rs.0.08 Cr in previous year. MFL has maintained Term deposits of Rs.50.00 Cr with Maturity below 3 months with the bank. The company has margin money deposited with the bank of amount Rs.29.79 Cr as on March 31,2021. Acuité believes that the liquidity of the company is likely to improve with approval of the restructuring proposal submitted for waiver of accrued and penal interest of GoI loans and restructuring of tenor of principal repayment over the period of the medium term. However, the timeline and status of the restructuring proposal will be key monitorables over the medium term for the assessment of liquidity position of the company.

Rating Sensitivities

Positive

- Substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in volume of sales and realizations per unit of the product offered.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Material Covenants

None

Outlook: Stable

Acuité believes that MFL will continue to benefit over the medium to long term on account of long track record of operations, experience of the management in the industry and the support from GoI. The outlook may be revised to 'Positive', in case of in case of sustainable improvement in capacity utilization along with the improvement in volume and realization per unit of the product offered leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case MFL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure or unexpected delays in the restructuring of the GoI loan leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	1,533.87	1,293.62
PAT	Rs. Cr.	2.87	(125.21)
PAT Margin	(%)	0.19	(9.68)
Total Debt/Tangible Net Worth	Times	(1.98)	(2.47)
PBDIT/Interest	Times	1.32	0.10

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-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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
29-July-2020	Cash Credit	Long Term	191.40	ACUITE BB / Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	19.10	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	230.00*	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	72.80	ACUITE BB / Stable (Reaffirmed)
02-Jan-2020	Cash Credit	Long Term	191.40	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	230.00*	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	72.80	ACUITE BB / Stable (Assigned)

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

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/ Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	191.40	ACUITE BB / Stable (Reaffirmed)
State Bank of India	Working Capital Demand Loan	30-April-2020	7.75	31-March-2022	7.47	ACUITE BB / Stable (Reaffirmed)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	210.00*	ACUITE A4+ (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	104.43	ACUITE BB / Stable (Reaffirmed)

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

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Shivam Agarwal Analyst - Rating Operations Tel: 040-4004 2327 shivam.agarwal@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.