Press Release

MADRAS FERTILIZERS LIMITED

July 21, 2023

Rating Reaffirmed & Withdrawn and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	293.52	ACUITE BB+ | Reaffirmed & Withdrawn	-
Bank Loan Ratings	9.78	Not Applicable | Withdrawn	-
Bank Loan Ratings	440.00	-	ACUITE A4+ | Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	743.30	-	-

Rating Rationale

Acuité has reaffirmed & withdrawn its long term rating of **'ACUITE BB+' (read as ACUITE double B plus)'** on the Rs 293.52 crore long term bank facilities of Madras Fertilisers Limited (MFL).
Acuite has reaffirmed & withdrawn its short term rating of **ACUITE A4+ (read as ACUITE A four plus)** on the Rs 440.00 crore short term bank facilities of Madras Fertilisers Limited (MFL).
Acuite has withdrawn its rating on the bank facilities of Rs 9.78 crore of Madras Fertilizers Limited (MFL).
The rating is being withdrawn on account of the request received from the firm and the NOC received from the banker as per Acuité's policy on withdrawal of ratings.

Rationale for the Reaffirmation

The rating is reaffirmed considering the stable operating and financial performance of MFL. It is also supported by experienced management & strong market presence, significant market share and location advantage of the company. However, the rating is constrained by the working capital intensive nature of operations and regulated nature of fertilizer industry.

About the Company

Madras Fertilizers Limited (MFL) incorporated in the year 1966 is a PSU under the administrative control of the Department of Fertilizers (DOF), Ministry of Chemicals & Fertilizers, Government of India. MFL is engaged in the manufacture of Ammonia, Urea and Complex Fertilizers at Manali, Chennai. MFL is also engaged in manufacturing Bio-fertilizers and marketing of eco-friendly Organic fertilizers and Neem Pesticides under the brand name "VIJAY". 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. The present directors of the Company are Mr. Venkatarao Nalabothu, Mr. Sanjay Shetye, Mr. Ulaganathan Saravanan, Mr. Siya Sharan, Mr. Mohammad Bagher Dakhili, Mr. Babak Bagherpour, Mr. Harsh Malhotra, Mr. Samieh Kokabi, Mr. Jayanthi Ragunathan Chakravarthi and Mr. Arvind Kumar.

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 Operations and Strong Market Presence 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 IndoIranian 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.

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.

Stable operating performance

Operating Income for FY23 stood at Rs 3461.40 crore as against Rs 2306.58 Cr in FY22 as against Rs 1533.87 crore for FY21. Further, EBITDA Margin for the FY23 stood at 9.72% as against FY22 at 10.77% as against 8.96% in FY21. The Profit after tax margins (PAT) stood at 5.35% in FY23 as against 7.03% in FY22 from 0.19% in FY21.

Weaknesses

Working capital intensive nature of operations

The operations of the company remained working capital intensive in nature marked by GCA Days of 135 days for FY23 compared against 220 days for FY22. Furthermore, the receivables days stood at 21 days in FY23 against 27 days in FY22. The inventory days of the firm stood at 44 days for FY23 compared against 12 days for FY22. The creditor days stood at 78 days for FY23 compared against 34 days for FY2022.

Regulated Nature of Fertiliser Industry and volatility in raw material prices

The fertilizer industry is strategic, but highly controlled, with fertilizer subsidy being an important component of profitability. Fertilizer companies are also exposed to subsidy payments from the government, which may get delayed leading to reliance on short-term working capital borrowing. Fertilizer manufacturer's profitability is influenced by the regulations governing various types of fertilizers wherein government controls the fertilizer prices and provides subsidy. Quantum of subsidy receivables and delays associated with receipt of the same, inherently impacts the liquidity of fertilizer industry; albeit it differs with the type of fertilizer. The shortfall in subsidy budget usually affects the cash flow of companies and thus companies have to resort to higher short term borrowings to fund extended subsidy receivables. The agricultural sector in India remains vulnerable to the vagaries of monsoon as the area under irrigation remains low which exposes fertiliser sector's sales and profitability to volatility. Going forward the timeliness of the subsidy receipt from the GoI will remain a key monitorable.

ESG Factors Relevant for Rating

Fertiliser producers like other companies in the chemicals sector face environmental risks arising from their exposure to waste, pollution, and toxicity. They are subject to environmental regulations as they release NOx, SOx, VOCs and other hazardous emissions. The industry has an obligation to ensure adequate treatment and disposal of waste and waste water. The key social risks evolve around health and employee safety, product safety and product quality. The industry has to manage risks associated with community development and supply chain procurement. Other material issues include employee training, employee development and freedom of association for trade unions. From the governance perspective, the ownership and control along with shareholders' rights are key issues. Additionally, regulations with respect to bribery, corruption and money laundering are crucial for efficient working of the industry.

MFL is engaged in the production of a range of fertilisers which includes urea, complex fertilizers and also organic fertilizers. It adheres to the policies relating to safe and sustainable business practices, including the environment, health, climate related risks and opportunities. While fertilizers are critical for increasing yields, its production and use have complex and conflicting impacts on GHG emissions across the agricultural value chain. The company has taken a number of initiatives for promoting balance fertilization to facilitate sustainable agricultural growth. But it should invest in new technologies and pursue the transition to low-carbon fertilizers, including blue and green ammonia.

MFL has a good track record with respect to Corporate Governance and adheres to all the policies applicable for listed companies. It has nine directors on its board which includes three independent directors from varied backgrounds. The company's proposal for restructuring of the loans received from Government of India is however, pending for approval. The company gives priority to various social responsibility measures for the benefit of weaker section of the Society and to improve the standard of living of the inhabitants near the factory area. In the wake of the Covid pandemic, MFL focussed on protection of health of employees and contract labourers. In pursuance to the Prime Minister's Mission on empowering the farmers, MFL continues to support them in some locations through soil sample analysis and recommendation of fertilizer dosage, educating the farmers on weather, crop insurance and other improved farm technologies.

Rating Sensitivities

Substantial improvement in scale of operations while maintaining profitability margins over the medium term
Sustainable improvement in Profitability, Leverage and Solvency position of the company

Material covenants

None

Liquidity Position

Stretched

MFL's liquidity is stretched marked by insufficient generation of net cash accruals in FY2023 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. 34.01-195 Cr during last three years ending FY2023 as against its long term debt obligations of Rs.1,253.56 - 1,312.81 Cr for the same period. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 135 days as on March, 2023 as compared to 220 days as on March, 2022.

Outlook:

Not Applicable

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	3461.40	2306.58
PAT	Rs. Cr.	185.33	162.05
PAT Margin	(%)	5.35	7.03
Total Debt/Tangible Net Worth	Times	(5.67)	(3.44)
PBDIT/Interest	Times	4.30	2.77

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

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

Note on complexity levels of the rated instrument
In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 May 2022	Covid Emergency Line.	Long Term	2.12	ACUITE BB+ | Positive (Upgraded from ACUITE BB | Stable)
	Cash Credit	Long Term	191.40	ACUITE BB+ | Positive (Upgraded from ACUITE BB | Stable)
	Proposed Bank Facility	Long Term	9.78	ACUITE BB+ | Positive (Upgraded from ACUITE BB | Stable)
	Letter of Credit	Short Term	130.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	100.00	ACUITE BB+ | Positive (Assigned)
	Letter of Credit	Short Term	310.00	ACUITE A4+ (Reaffirmed)
28 Oct 2021	Letter of Credit	Short Term	210.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	104.43	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	191.40	ACUITE BB | Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	7.47	ACUITE BB | Stable (Reaffirmed)
29 Jul 2020	Proposed Bank Facility	Long Term	72.80	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)
	Cash Credit	Long Term	191.40	ACUITE BB | Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	191.40	ACUITE BB+ | Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BB+ | Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.12	ACUITE BB+ | Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	310.00	ACUITE A4+ | Reaffirmed & Withdrawn
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	130.00	ACUITE A4+ | Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	9.78	Not Applicable | Withdrawn

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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