



Khaitan CHEMICALS AND FERTILIZERS LTD.

CIN : L24219MP1982PLC004937

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KCFL/2021/

December 31, 2021

To,
The Manager (DCS/Compliance)
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, **MUMBAI- 400 001**

To,
The Manager (Compliance/Listing)
National Stock Exchange of India Limited,
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), **MUMBAI- 400 001**

BSE Scrip Code : 507794

NSE Symbol : KHAICHEM

Sub: Intimation of Credit Rating under SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015.

In terms of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, please be noted that the **India Ratings & Research** has upgrade the ratings from **BBB+** to **A-** of the bank facilities of the company, details are as under.

Name of the Company	Credit Rating Agency	Facilities	Amount (Rs. Crores)	Rating
Khaitan Chemicals and Fertilizers Limited	India Ratings & Research	Long Term Issuer Rating	-	IND A- / Stable
		Fund Based Working Capital Limit	170.00	IND A- / Stable / IND A2+
		Non-Fund Based Working Capital Limit	134.40	IND A- / Stable / IND A2+
		Term Loan	11.25	IND A- / Stable

We request you to kindly take the above information on Record.

Thanking You,

Yours faithfully,
for KHAITAN CHEMICALS AND FERTILIZERS LIMITED


CS KAMLESH JOSHI
(Company Secretary & Senior General Manager)

Encl as above

India Ratings Assigns Khaitan Chemicals and Fertilizers 'IND A-'; Outlook Stable

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DEC 2021

By Nitin Bansal

India Ratings and Research (Ind-Ra) has assigned Khaitan Chemicals and Fertilizers Limited (KCFL) a Long-term Issuer Rating of 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits (consortium)				INR1,700.0	IND A-/Stable/INDA2+	Assigned
Non-fund-based limits (consortium)				INR1,344.0	IND A-/Stable/INDA2+	Assigned
Term loan	-	-	October 2026	INR112.5	IND A-/Stable	Assigned

Ind-Ra has taken a standalone view of KCFL's financials while arriving at the ratings.

KEY RATING DRIVERS

Established Operations and Strong Market Presence: KCFL has an established market position in the single super phosphate (SSP) segment with around 9% market share over FY17-FY21. The company operates six manufacturing plants with a total manufacturing capacity of 1.13 million mtpa, across Gujarat, Rajasthan, Chhattisgarh, Uttar Pradesh and Madhya Pradesh, through which it caters to the markets of several states with over 3,000 distributors and a dealer network. The company also has a diversified product mix of SSP fertilisers, sulphuric acid and its derivatives as well as soya-based products, contributing around 83%/12%/3%, respectively, to the revenue in FY21 (FY20: 79%/15%/4%). KCFL's sulphuric acid manufacturing capacity of 0.26 million mtpa provides backward integration for SSP manufacturing. KCFL has been able to increase its sales volumes to 0.46 million mt to FY21 from 0.33 million mt in FY18 by leveraging the

brand recall for its SSP fertilisers.

Healthy Performance to Continue: KCFL reported revenue of INR3.5 billion in 1HFY22 (1HFY21: INR2.6 billion; FY21: INR4.8 billion; FY20: INR4.3 billion) with EBITDA of INR695 million (INR380 million; INR597 million; INR459 million) and EBITDA margins of 19.42% (12.27%, 10.51%). The improvement has been driven by: (1) a healthy product demand, (2) healthy operating leverage given better capacity utilisation, (3) a switchover by farmers from costly di-ammonium phosphate (DAP) to SSP, and (4) the shortages witnessed in availability of DAP and other NPK fertilisers. The company benefits from its backward presence in manufacturing sulphuric acid as well as from the low-cost inventory held for rock phosphate. Given the DAP prices remain high and shortages continued in 3QFY22, Ind-Ra expects KCFL's EBITDA to continue to be healthy during FY22 and FY23. Although the management has indicated that while 1HFY22 margins were healthy, a moderation is expected during 2HFY22 due to the cyclical nature of business.

Improving Credit Metrics, Moderation in Working Capital Cycle: KCFL's net leverage reduced to 1.28x in 1HFY22 (FY21: 1.32x, FY20: 3.06x) and the interest cover increased to 10.78x (4.4x, 2.5x), on account of the improved EBITDA. Whereas the leverage and interest coverage had improved in FY21 on account of a reduction in debt, led by lower outstanding subsidy dues. KCFL's debt stood at INR1.1 billion as of 1HFY22 (FY21: INR0.7 billion; FY20: INR1.3 billion; FY19: INR1.3 billion), out of which INR1.09 billion was in form of working capital borrowings (FY21: INR0.5 billion; FY20: INR1.06 billion; FY19: INR0.9 billion). The increase in borrowings in 1HFY22 was on account of an increase in the subsidy portion of revenues to 52% (FY21: 29.3%, FY20: 29.0%, FY19: 25.9%). The trade receivables including subsidy as of 1HFY22 increased to INR1.2 billion (FY21: INR0.5 billion; FY20: 0.7 billion). However, the subsidy days decreased to 114 for 1HFY22 (FY21: 140; FY20: 215; FY19: 246). The overall working capital cycle days remained long despite reducing to 135 days during FY21 (FY18: 224 days).

The fertiliser business being seasonal in nature requires a significant amount of working capital to build inventory. Furthermore, a significant portion of the company's revenue are in form of subsidy. Any delay in the release of subsidy could result in increased working capital borrowings. However, the government's recent focus towards timely disbursement of subsidy is likely to keep the overall credit profile comfortable at FYE22. The net adjusted leverage (net debt adjusted for subsidy/EBITDA) turned negative at 0.13x as of 1HFY22 (FY21: 0.41x, FY20: 1.44x).

Liquidity Indicator - Adequate: KCFL's average use of the fund-based limits was 64% and that of non-fund-based limits was 61% for the past 12 months. The company has nominal repayment obligations with respect to term loans amounting to INR6.2 million for FY22. KCFL had a total debt of INR1.16 billion outstanding at end-1HFY22 (FYE21: INR0.7 billion), comprising a long-term debt of INR69 million (INR196 million) and a short-term debt of INR1.09 billion (INR0.58 billion). Furthermore, if there is any more-than-expected delay payment of subsidy, the liquidity position will be stretched. KCFL's cash flow from operations post interest expense improved to INR490 million in FY21 (FY20: negative INR221 million). Ind-Ra expects timely release of subsidy in the near to medium term, leading to adequate liquidity.

Low Capacity Utilisations, although Improving: KCFL's SSP sales volumes improved to 0.24 million tonnes in 1HFY22 (FY21: 0.46 million tonnes; FY20: 0.4 million tonnes, FY19: 0.30 million tonnes) because of which the overall capacity utilisation improved to 46% (40%, 28%). Historically, the markets for SSP tend to be localised given there is no freight subsidy, accordingly the utilisation levels have been low. However, Ind-Ra expects an improvement in the utilisations, driven by high DAP prices and government's push towards substituting SSP for DAP.

Regulated Nature of Fertiliser Industry: KCFL operates in a regulated industry where the subsidy portion of the overall revenue is controlled by the government under the Nutrient-base Subsidy scheme and the retail prices are market driven. KCFL operations thus remain exposed to the timely fixation of subsidy by the government to factor in the volatility in raw material prices along with timely release of subsidy which impact the short term borrowings of the entity.

However, Ind-Ra draws comfort from the continuation of policy-level support in FY22 by the government, with an additional subsidy of INR434.3 billion allocated in response to a continued increase in raw material prices. This was in addition to the INR626 billion subsidy allocated in FY21 to clear the entire subsidy backlog and free-up significant working capital funds in the near to medium term.

Profitability Exposed to Volatility in Input Prices: The EBITDA margins for KCFL are susceptible to price volatility in rock phosphate and sulphuric acid, although the SSP is a deregulated fertiliser. However, Ind-Ra believes that during an event of a higher-than-expected increase in the raw material prices, nutrient rate under Nutrient-base Subsidy scheme will be adjusted appropriately to ensure no increase in the farm gate prices and availability of fertilisers to farmers. This will lead to a continued demand for SSP as it entails stable EBITDA margins. Also, the company completely hedges its foreign currency payables stemming from imports of around 80% of its rock phosphate requirements.

RATING SENSITIVITIES

Positive: A higher-than-expected increase in the plant utilisations coupled with higher-than-expected margins, and timely receipt of subsidy leading to a comfortable working capital cycle all on a sustained basis would be positive for the ratings.

Negative: A decline in the operating margins resulting in lower-than-expected EBITDA and/or a stretch in the working capital cycle and/or large debt-funded capital expenditure collectively leading to the net adjusted leverage remaining above 1x and tightening of liquidity all on a sustained basis could be negative for the ratings.

COMPANY PROFILE

KCFL manufactures SSP and sulphuric acid at an installed capacity of 11,30,000MT and 2,64,000MT, respectively. The company also has a 1,400TPD soya bean crushing capacity and a 100TPD soya bean edible oil refinery in Ratlam (Madhya Pradesh).

FINANCIAL SUMMARY

Particulars (INR million)	1HFY22	FY21	FY20
Working capital	1,095	588	1,064
Long-term bank loan	65	190	191
Current portion of long-term debt	4	6	134
Total debt	1,164	785	1,388
Interest coverage (x)	10.78	4.40	2.50
Net debt/EBITDA (x)	1.28	1.32	3.06
Source: KCFL, Ind-Ra			

BANK WISE FACILITIES DETAILS

[Click here to see the details](#)

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Term loan	Low

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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