

**राष्ट्रीय केमिकल्स एण्ड
फर्टिलाइजर्स लिमिटेड**

(भारत सरकार का उपक्रम)

साथ बढ़ें समृद्धि की ओर



**Rashtriya Chemicals and
Fertilizers Limited**

(A Government of India Undertaking)

Let us grow together

जय भगवान शर्मा
कंपनी सचिव

JAI BHAGWAN SHARMA
COMPANY SECRETARY

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CIN: L24110MH1978GOI020185

RCF/CS/Stock Exchanges /2020

March 13, 2020

The Corporate Relations Department BSE Limited Department of Corporate Services Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001.	The Listing Department National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No.C/1, G Block, Bandra Kurla Complex, Bandra(East), Mumbai- 400 051.
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Dear Sir/ Madam,

Sub: Intimation of Revision in Credit Rating

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform that based on ICRA Limited, the credit rating of the Company has been downgraded.

In accordance with the Regulation, please find below the details of the revision in ratings of the Company:

Credit Rating Agency	Facilities/ Instrument rated	Rated Amount (Rs. in Crore)	Existing Rating	Revised Rating	Date of receipt of letter	Reason
ICRA Limited	Bank Facilities	5,100	[ICRA]AA (Negative)	[ICRA]AA- (Stable)	12 th Mar 2020	Downgrade in the long-term rating takes into account the weakening cost competitiveness and tightening of energy norms by Government of India
	Non-Convertible Debenture (NCD)	500	[ICRA]AA (Negative)	[ICRA]AA- (stable)		
	Commercial Paper Programme	3,000	[ICRA]A1+	[ICRA]A1+		No Change

This is for your kind information and record.

Yours faithfully,
For Rashtriya Chemicals and Fertilizers Limited

(J.B. Sharma)
Company Secretary

March 12, 2020

Rashtriya Chemicals and Fertilizers Limited: Long Term Rating downgraded; Outlook revised to 'Stable'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities	5,100.00	5,100.00	Long term rating: [ICRA]AA- downgraded from [ICRA]AA; outlook revised to Stable from Negative
Non-Convertible Debentures	500.00	500.00	Long term rating: [ICRA]AA- downgraded from [ICRA]AA; outlook revised to Stable from Negative
Commercial Paper Programme	2,000.00	3,000.00	[ICRA]A1+; Assigned/outstanding
Total	7,600.00	8,600.00	

*Instrument details are provided in Annexure-1

Rationale

The downgrade in the long-term rating takes into account the weakening cost competitiveness of RCF in urea operations due to i) tightening of energy norms by Government of India in FY2019 even as breakdown of Gas Generator at Thal Plant led to higher energy consumption in YTD FY2020 and ii) production beyond RAC being less remunerative in a scenario of subdued international prices of urea. The downgrade in rating also factors in losses in Chemicals division due to fall in the realisation of key products even as cost of production remains high owing to high cost of gas, the weakening credit metrics of the company due to higher subsidy receivables and increase in scale of trading operations leading to higher working capital borrowings, and the large debt funded capital expenditure/investment plans.

The ratings, however, continue to factor in the high financial flexibility of the company by virtue of the large sovereign ownership. The company has access to debt markets at competitive rates to support its liquidity profile. The ratings also factor in the established position of RCF as one of the largest urea manufacturers in India having vertically integrated operations in fertilisers and chemicals coupled with healthy operating efficiency of the company's urea operations reflected in high plant utilisation levels.

The ratings, nonetheless, are constrained by the vulnerability of profitability in the fertiliser business to regulatory risks and agro-climatic risks; vulnerability of the profitability of the chemical division to commodity price cycles, exchange fluctuations and potential reduction of import duty, and high working capital intensive nature of fertiliser operations. In FY2020, the tightening of energy consumption norms for Thal unit along with breakdown of Gas Generator leading to higher energy consumption affected the profitability from Urea business to some extent. In the medium term, the tightening of energy consumption norms for Trombay unit as per New Urea Policy 2015, would also affect the profitability from urea business though the same is expected to be offset to an extent with increase in energy efficiency supported by the ongoing capex at both the units.

ICRA has taken note of the on-going dispute of RCF with GAIL (India) Limited regarding the use of subsidised gas for non-urea operations. Any material liability that may emerge on RCF from these matters is a key rating sensitivity.

The stable outlook takes into account the established position of company as one of the largest urea manufacturers in India and the financial flexibility enjoyed by the company.

Key rating drivers

Credit strengths

Large sovereign ownership and established position as one of the largest urea manufacturers- The GoI remains the largest stakeholder with 75% share in RCF. The large sovereign ownership results in high degree of financial flexibility for the company. The company has access to debt markets at competitive rates to support its liquidity profile. Further, RCF remains one of the largest urea manufacturers in India with a market share of ~8% in FY2018. RCF has an established position in about ten states in the western, central and southern parts of India on the back of its strong brand strength (“Ujjwala”) and also has a significant presence in urea trading, which, along with products like DAP, MOP, etc. helps to provide a wider basket of products to farmers.

Product diversity and vertically integrated operations- The operations of RCF are characterised by a high level of vertical integration across its fertilisers and chemicals, thereby allowing high value addition and diversification. The strength of the company lies in its product diversity and ability to switch between product streams in line with the market conditions.

Healthy operating efficiency for urea operations- The company has maintained high operating efficiency at Thal and Trombay with capacity utilization of over 100%. Nonetheless, in FY 2020 there was increase in energy consumption at Thal plant due to break down of Gas Generator. Going forward, tightening of the energy norms from FY2021 onwards (to 6.538 Gcal/MT) will negatively impact the profitability at Trombay due to reduction in energy savings; however, the company is undertaking revamp projects to reduce its energy consumption levels which would partly negate the aforementioned impact over the medium term. As per modified version of NPS-III, RCF plants are eligible to get an increase in the fixed cost of urea by Rs. 350/MT. However, as the policy notification remains delayed, the company has not taken into account the retention prices as per higher fixed cost reimbursement, while finalizing its accounts for the period FY2015-FY2019. The company plans to account for the same only after the notification which will result in a one-time recognition of about Rs. 500 crore, while recurring reimbursement would be in the range of Rs.101 crore thereafter.

Credit challenges

Sensitivity of cash flows to delays in subsidy receipts and other regulatory risks - The subsidy receipts from the GoI witnessed an increase, with outstanding subsidy receivables standing at Rs. 5816 crores as of January 2020. The company undertook urea imports of about Rs 3000 crore at the behest of the GoI, of which about Rs 2000 crore is yet to be paid by the latter. The company’s interest costs too increased in FY2019 and YTD FY2020 partly due to higher working capital borrowings. Moreover, the sector, being highly regulated, remains vulnerable to changes in the regulations by the GoI. Because of weak profits and elevated debt levels, the company’s return metrics (RoCE of 7.3% in FY 2018-19) and leverage metrics (Total Debt/OPBDITA of 7.8 times as on March 31, 2019) are likely to be under pressure in the medium term.

Continued regulatory overhang on gas related issues:- Due to significant shortage in domestic gas supply, there has been deliberation by the GoI to not allow captive ammonia-based complex fertiliser manufacturers to benefit from cheap domestic gas. In this regard, the DoF has been asked to work out a suitable mechanism to mop up benefits caused due to ammonia manufactured by these companies. The above issue relating to gas usage has been referred and is pending before an Inter-Ministerial Committee (IMC) for deliberation. On the same issue, the DoF had withheld Rs. 198.9

from the subsidy claims, pending final decision on the recovery. However, as per DoF approval for release of this subsidy, upon submission of its claims along with bank guarantee for equivalent amount by the Company, it received Rs. 198.9 crore of subsidy. GAIL, has made additional claims of Rs. 1,442.8 crore, which is currently under arbitration and has been recently referred to the committee of secretaries.

Large debt-funded capex plans over the medium term -The company is undertaking capex of about Rs. 900 crore for reducing the energy consumption at both its plants over the next two years which would adversely affect the capital structure in the medium term besides exposing the company to project execution risks. In addition, RCF is one of the JV partners for a greenfield coal gasification based urea plant at Talcher (Odisha) and in BVFCL of Assam which would entail sizeable equity infusion as well as expose the company to project execution risks. As the internal accruals of the company are not adequate, most of these investments are likely to be debt funded, which will put pressure on its key credit metrics over the medium term.

Liquidity Position: Adequate

The liquidity profile of RCF was affected in FY2019 due to increase in the overall subsidy burden in Q4 that led to higher short-term borrowings including loans availed from the special banking arrangement provided by the GoI. Further receivables from GoI remain high and stood at Rs. 5,816 crore as on January FY 2020. Nevertheless, the company's liquidity position is expected to remain adequate as it enjoys high financial flexibility due to its sovereign ownership resulting in easy access to debt markets and banks, which lends comfort from a credit perspective.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology on Fertilisers Rating Methodology on Chemicals
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rashtriya Chemicals and Fertilizers Limited. As on March 31, 2019, the company had 3 JVs, that are enlisted in Annexure-2

About the company:

Established in 1978, Rashtriya Chemicals & Fertilizers Limited (RCF) has a diversified product portfolio comprising urea (~70% of overall sales), complex fertilisers (~15%), traded fertilisers and industrial chemicals. The company's industrial chemicals portfolio comprises 15 products such as ammonium nitrate, nitric acid and methylamines. RCF has two plants in Maharashtra - at Trombay and Thal. The Thal unit is primarily engaged in the production of urea (capacity of 2 mmtpa) besides a few industrial chemicals. The Trombay unit is engaged in manufacturing a wide range of industrial products, complex fertilisers (capacity of 0.66 mmtpa) and urea (capacity 0.33 mmtpa). The Government of India (GoI) holds 75% stake in the company.

For 9M FY2020 company recorded operating revenues Rs. 7092 crore with EBITDA margin of 3.06% and Profitability margin of 0.93%.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	7,319	8,885
PAT (Rs. crore)	79	139
OPBDIT/OI (%)	3.7%	5.0%
RoCE (%)	4.2%	7.3%
Total Debt/TNW (times)	0.5	1.1
Total Debt/OPBDIT (times)	4.9	7.8
Interest coverage (times)	4.3	2.8
DSCR	1.6	2.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017		
				In FY 2020							
				12 March 2020	23 July 2019	12 July 2018	08 June 2018	04 Jan 2018	31 March 2017	19 January 2017	04 May 2016
1 Cash Credit	Long Term	600	-	[ICRA] AA- (Stable)	[ICRA] AA (Negative)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)
2 Term Loans	Long Term	4,500	499	[ICRA] AA- (Stable)	[ICRA] AA (Negative)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)
3 Non-Convertible Debentures	Long Term	500	-	[ICRA] AA- (Stable)	[ICRA] AA (Negative)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	-	-
4 Commercial Paper	Short Term	3,000	-	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](http://www.icra.in)

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	NCD	Yet to be placed	NA	-	500.00	[ICRA]AA- (Stable)
NA	Fund Based Limits (Cash Credit)	NA	NA	-	600.00	[ICRA]AA-(Stable)
NA	Term Loan 1	FY2016	NA	FY2023	304.00	[ICRA]AA-(Stable)
NA	Term Loan 2	FY2019	NA	FY2024	117.00	[ICRA]AA-(Stable)
NA	Term Loan 3	FY2017	NA	FY2023	50.00	[ICRA]AA-(Stable)
NA	Term Loan 4	FY2018	NA	FY2024	200.00	[ICRA]AA-(Stable)
NA	Proposed Term Loan	NA	NA	-	3829.00	[ICRA]AA-(Stable)
NA	Commercial Paper	NA	NA	1-365 days	3000.00	[ICRA]A1+

Source: Rashtriya Chemicals and Fertilizers Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
FACT-RCF Building Products Ltd. (FRBL), Kochi	50%	Equity Method
Urvarak Videsh Limited (UVL)	33.33%	Equity Method
Talcher Fertilizers Limited (TFL)	29.67%	Equity Method

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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