

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

October 31, 2022 | Mumbai

Kribhco Fertilizers Limited

Long term rating upgraded to 'CRISIL AA/Stable'; Short term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.3001.25 Crore
Long Term Rating	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.65 Crore Non Convertible Debentures [^]	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')
Rs.100 Crore Non Convertible Debentures ^{&}	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')
Rs.200 Crore Non Convertible Debentures [%]	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')
Rs.120 Crore Non Convertible Debentures ^{\$}	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Positive')

[^] Guaranteed by Krishak Bharati Cooperative Limited (KRIBHCO)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities and non-convertible debentures of Kribhco Fertilizers Limited (KFL) to '**CRISIL AA/Stable**' from 'CRISIL AA-/Positive'. The rating on the short-term bank facilities has been reaffirmed at 'CRISIL A1+'.

The upgrade reflects CRISIL Ratings' expectation that KFL's overall credit risk profile will improve, driven by improvement in operating performance, with reduction in energy consumption on completion of the energy savings capex as well as benefited by the timely subsidy disbursements, reducing the working capital cycle. Debt protection metrics such as interest cover and leverage (measured as ratio of net debt to earnings before interest tax depreciation and amortisation) are also likely to improve with sustained reduction in working capital intensity.

Average per unit operating profitability improved to Rs. 2348/MT and Rs. 2832/MT in fiscal 2022 and the first quarter of this fiscal, respectively (as compared to Rs. 1728/MT in fiscal 2021), benefited by lower energy consumed and with an increase in pooled gas prices. Further improvement could be expected with reduction in the freight cost post implementation of the railway siding project, expected to be completed by the end of this fiscal.

Additional subsidies announced by the government over the past two fiscals, has improved the financial risk profile of the company. In addition to Rs 1.05 lakh crore approved in the Union Budget for this fiscal, an additional subsidy of Rs 1.10 lakh crore was announced in May 2022 to provide for the surging feedstock and product prices. While this seemed sufficient to meet this fiscal's requirements, as per CRISIL Ratings' estimates, the continued surge in the gas prices could necessitate a further increase in the subsidy requirement by around Rs. 40,000 crores for the urea players. The government has been extending the required financial support to this sector, wherein a timely announcement and disbursement of this increased requirement would be a key monitorable.

The ratings also continue to reflect the strong managerial and financial support received by the company from its parent, Krishak Bharati Cooperative Ltd (KRIBHCO), and its well-established market position in the urea industry. These strengths are partially offset by its average financial risk profile and exposure to regulatory risks in the fertiliser industry.

Analytical Approach

CRISIL Ratings has applied its parent notch-up framework to factor in the extent of support received by KFL from KRIBHCO.

Key Rating Drivers & Detailed Description

Strengths:

- Strong managerial and financial support from the parent, KRIBHCO

The managerial and financial support from KRIBHCO is central to CRISIL Ratings' assessment of the credit risk profile of KFL. Being a 100% shareholder in KFL, KRIBHCO has extended corporate guarantees for the latter's bank facilities and non-convertible debentures. KFL has a marketing agreement with KRIBHCO for selling its total production of urea and surplus ammonia. Moreover, KFL has common directors with KRIBHCO.

- **Established market position in the urea industry**

KFL, along with its parent, is the second largest player in the urea sector in India, with a prominent presence in the high urea-consuming states of north India. These entities together hold an average 14% market share of the domestic urea production in India. The company benefits from the large distribution network of KRIBHCO, comprising 9,472 cooperative societies, 2,300 direct dealers and 4,000 retailers. Additionally, the favourable location of KFL's plant, close to its markets, lends a significant competitive edge.

- **Improvement in operating performance**

The plant operated at an average 112% utilisation in fiscal 2022 versus 128% in the previous fiscal, wherein the lower utilisation was due to a 45-day shutdown required to implement the energy-savings project. Average utilisation has remained at similar levels of around 112% in the first quarter of this fiscal, as the plant had to undergo a 30-day shutdown for planned maintenance.

Operating profitability has improved since fiscal 2022, with reduction in energy consumption on completion of the energy savings capex as well as benefited by the increase in pooled gas prices.

Currently, energy consumed averages 5.20 giga calorie per tonne (Gcal/tonne) as compared to 5.43 Gcal/tonne in fiscal 2021.

Overall, a further improvement in operating profitability could be expected with reduction in the freight cost post implementation of the railway siding project, expected to be completed by the end of this fiscal.

Weaknesses:

- **Moderate financial risk profile**

While the additional subsidies announced by the government over the past two fiscals has improved the financial risk profile of the company, credit metrics continue to remain moderate. Gearing increased to 2.6 times as on March 31, 2022 as compared to 2.2 times as on March 31, 2021, though a steep improvement from 5.2 times as on March 31, 2020. Improvement in operating performance has improved the interest coverage ratio to 3.8 times in fiscal 2022 as compared to 1.9 times in fiscal 2021.

The continued surge in gas prices could necessitate a requirement of additional subsidies to be announced for this fiscal. Given the requirement of working capital borrowings mainly depend on the subsidy receivable position with the Government, a substantial lag in announcing and disbursing these additional subsidy requirements could alter the credit metrics for the company and would be a key rating monitorable.

- **Exposure to regulatory risks in the fertiliser industry**

Given the government's thrust on self-sufficiency in food grain production, the fertiliser industry is strategic but highly controlled. Hence, players are susceptible to regulatory changes. The government has been focusing on reducing subsidy without increasing prices by urging companies to adopt efficient methods of urea production. In line with these measures, the government has tightened energy consumption norms, thereby impacting profits of urea players unless they improve energy efficiency. The impact of this norm is partially offset by the agreed additional fixed cost of Rs 350 per tonne by the government for all urea manufacturers.

Fertiliser players are also susceptible to delays in subsidies from the government, leading to higher reliance on working capital loans. Any deferment in the disbursement of subsidy on account of under-budgeting and any change in the regulatory scenario remain key rating sensitivity factors.

Liquidity: Strong

The company has sanctioned bank lines of Rs 4,176 crore, with an average 30% utilisation during the past 12 months ending August 2022. It has capex plans of around Rs 165 crore and Rs 45 crore in fiscals 2023 and 2024, respectively, to be funded through a mix of debt and internal accruals. Moreover, its financial flexibility is backed by the strong promoter support received from KRIBHCO. KRIBHCO has extended a corporate guarantee for the debt availed by KFL. This enables KFL to refinance its debt obligation at competitive rates, dependence on which is likely to continue over the medium term.

Outlook: Stable

Business risk profile to remain comfortable supported by its healthy market position in the urea industry. While the financial risk profile could remain moderate, overall, the company would benefit from the strong linkages it holds with KRIBHCO.

Rating Sensitivity factors

Upward factors

- Upward revision in the credit view on KRIBHCO by CRISIL Ratings
- Significant increase in operating profitability, supported by completion of the freight reduction capex, as budgeted
- Improvement in liquidity, with reduction in receivables to less than 50 days
- Substantial positive impact of regulatory/policy changes

Downward factors

- Significant increase in subsidy receivables beyond 150 days weakening the financial risk profile
- Larger-than-expected, debt-funded capex or investments impacting the capital structure

- Change in stance of support from KRIBHCO or downward revision in the credit view on KRIBHCO
- Adverse negative impact of regulatory/policy changes

About the Company

KFL was incorporated in December 2005 as a special-purpose vehicle under a joint venture agreement between KRIBHCO and Shyam Basic Infrastructure Projects Pvt Ltd to acquire the Shahjahanpur fertiliser complex of Oswal Chemicals and Fertilisers Ltd. The fertiliser plant in Shahjahanpur has capacity to produce 0.86 MTPA of urea and 0.5 MTPA of ammonia. On April 21, 2016, KRIBHCO acquired the remaining 7.5% stake in KFL and became a 100% shareholder. The name of the company was changed from KRIBHCO Shyam Fertilizers Ltd to KFL in June 2017.

About the guarantor

KRIBHCO was incorporated in 1980 by the government of India. It manufactures fertilisers (including biofertilisers) and processes seeds. KRIBHCO completed the debottlenecking of its plant in Hazira, Gujarat, in 2012, and its urea manufacturing capacity has increased by 26% to 2.19 MTPA from 1.73 MTPA. Its first biofertiliser plant was commissioned in late 1990s; it now has capacity to manufacture 550 TPA of biofertilisers.

Key Financial Indicators*

Particulars	Unit	2022	2021
Revenue	Rs crore	3,207	2,172
Profit after tax (PAT)	Rs crore	80	7
PAT margin	%	2.5	0.3
Adjusted debt / adjusted networkth	Times	2.6	2.2
Adjusted interest coverage	Times	3.8	1.9

* As per analytical adjustments made by CRISIL Ratings

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities – including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit~@	NA	NA	NA	300.0	NA	CRISIL AA/Stable
NA	Cash Credit~	NA	NA	NA	50.0	NA	CRISIL AA/Stable
NA	Cash Credit & Working Capital Demand Loan&&&~	NA	NA	NA	445.0	NA	CRISIL AA/Stable
NA	Overdraft Facility~#	NA	NA	NA	100.0	NA	CRISIL A1+
NA	Overdraft Facility ~>	NA	NA	NA	550.0	NA	CRISIL A1+
NA	Overdraft Facility ~><	NA	NA	NA	500.0	NA	CRISIL A1+
NA	Working Capital Demand Loan~##	NA	NA	NA	200.0	NA	CRISIL AA/Stable
NA	Standby Letter of Credit~&&\$	NA	NA	NA	100.0	NA	CRISIL AA/Stable
NA	Standby Letter of Credit ~&&^	NA	NA	NA	114.75	NA	CRISIL AA/Stable
NA	Standby Letter of Credit ~@@	NA	NA	NA	50.00	NA	CRISIL AA/Stable
NA	Long Term Bank Facility~	NA	NA	Jan-25	37.5	NA	CRISIL AA/Stable
NA	Long Term Bank Facility~	NA	NA	Sep-24	114.0	NA	CRISIL AA/Stable
NA	Short Term Loan~++	NA	NA	NA	100.0	NA	CRISIL A1+
NA	Short Term Loan ~**	NA	NA	NA	40.0	NA	CRISIL A1+
NA	Short Term Loan~***	NA	NA	NA	300.0	NA	CRISIL A1+
INE486H07015	Non-convertible debentures~	May-20	7.75%	May-23	200.0	Simple	CRISIL AA/Stable
INE486H07023	Non-convertible debentures~	June-20	7.60%	Jun-23	120.0	Simple	CRISIL AA/Stable

INE486H08047	Non-convertible debentures~	Aug-21	6.95%	Aug-24	95.0	Simple	CRISIL AA/Stable
INE486H08054	Non-convertible debentures~	Dec-21	6.40%	Dec-24	70.0	Simple	CRISIL AA/Stable

~ Guaranteed by Krishak Bharati Cooperative Limited (KRIBHCO)

@ Sub-limit for letter of credit / standby letter of credit / line of credit / letter of undertaking / bank guarantee / commercial paper lien

&& Fully interchangeable with working capital loan

with sub-limit of short-term loan, working capital demand loan/foreign currency demand loan, letter of credit, standby letter of credit and loan equivalent risk

> Sub-limit of WCL, standby letter of credit, overdraft, import letter of credit, inland letter of credit, bank guarantee, buyer's credit, FBG for buyer's credit, credit equivalent forward contract limit and import letter of credit for capital goods and foreign currency demand loan

><With sub-limit of WCDL & Foreign currency loan

With sub-limit of cash credit

&& Fully interchangeable with letter of credit

\$ Includes sub-limit for financial bank guarantee (FBG)-1, FBG-2, performance bank guarantee, import letter of credit, inland

^ Cash credit, letter of credit/standby letter of credit/buyer's credit for bank guarantee with sub-limit for loan equivalent risk

@@ Fully interchangeable with letter of credit with sub-limit for loan equivalent risk

** With sub-limit of letter of credit

*** With sub-limit of short term loan-FC and MTM

++ With sub-limit of short-term loan, overdraft, financing of bills/invoices, letter of credit, forward exchange/options

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	2736.5	CRISIL A1+ / CRISIL AA/Stable		--	17-12-21	CRISIL AA-/Positive / CRISIL A1+	04-06-20	CRISIL A1+ / CRISIL AA-/Stable		--	CRISIL A1+ / CRISIL AA-/Stable
			--		--	16-08-21	CRISIL AA-/Positive / CRISIL A1+	02-05-20	CRISIL A1+ / CRISIL AA-/Stable		--	--
			--		--	04-08-21	CRISIL AA-/Positive / CRISIL A1+	05-02-20	CRISIL A1+ / CRISIL AA-/Stable		--	--
			--		--	12-02-21	CRISIL AA-/Positive / CRISIL A1+	24-01-20	CRISIL A1+ / CRISIL AA-/Stable		--	--
			--		--							
Non-Fund Based Facilities	LT	264.75	CRISIL AA/Stable		--	17-12-21	CRISIL AA-/Positive	04-06-20	CRISIL AA-/Stable		--	CRISIL AA-/Stable
			--		--	16-08-21	CRISIL AA-/Positive	02-05-20	CRISIL AA-/Stable		--	--
			--		--	04-08-21	CRISIL AA-/Positive	05-02-20	CRISIL AA-/Stable		--	--
			--		--	12-02-21	CRISIL AA-/Positive	24-01-20	CRISIL AA-/Stable		--	--
			--		--							
Non Convertible Debentures	LT	485.0	CRISIL AA/Stable		--	17-12-21	CRISIL AA-/Positive	04-06-20	CRISIL AA-/Stable		--	--
			--		--	16-08-21	CRISIL AA-/Positive	02-05-20	CRISIL AA-/Stable		--	--
			--		--	04-08-21	CRISIL AA-/Positive		--		--	--
			--		--	12-02-21	CRISIL AA-/Positive		--		--	--
			--		--							

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit~	50	CRISIL AA/Stable
Cash Credit~@	300	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan&&~	445	CRISIL AA/Stable
Long Term Bank Facility~	37.5	CRISIL AA/Stable
Long Term Bank Facility~	114	CRISIL AA/Stable
Overdraft Facility~#	100	CRISIL A1+
Overdraft Facility~>	550	CRISIL A1+
Overdraft Facility~><	500	CRISIL A1+

Short Term Loan~++	100	CRISIL A1+
Short Term Loan~**	40	CRISIL A1+
Short Term Loan~***	300	CRISIL A1+
Standby Letter of Credit~&&\$	100	CRISIL AA/Stable
Standby Letter of Credit~&&^	114.75	CRISIL AA/Stable
Standby Letter of Credit~@@	50	CRISIL AA/Stable
Working Capital Demand Loan~##	200	CRISIL AA/Stable

~ Guaranteed by Krishak Bharati Cooperative Limited (KRIBHCO)

@ Sub-limit for letter of credit / standby letter of credit / line of credit / letter of undertaking / bank guarantee / commercial paper lien

&& Fully interchangeable with working capital loan

with sub-limit of short-term loan, working capital demand loan/foreign currency demand loan, letter of credit, standby letter of credit and loan equivalent risk

> Sub-limit of WCL, standby letter of credit, overdraft, import letter of credit, inland letter of credit, bank guarantee, buyer's credit, FBG for buyer's credit, credit equivalent forward contract limit and import letter of credit for capital goods and foreign currency demand loan

><With sub-limit of WCDL & Foreign currency loan

With sub-limit of cash credit

&& Fully interchangeable with letter of credit

\$ Includes sub-limit for financial bank guarantee (FBG)-1, FBG-2, performance bank guarantee, import letter of credit, inland

^ Cash credit, letter of credit/standby letter of credit/buyer's credit for bank guarantee with sub-limit for loan equivalent risk

@@ Fully interchangeable with letter of credit with sub-limit for loan equivalent risk

** With sub-limit of letter of credit

*** With sub-limit of short term loan-FC and MTM

++ With sub-limit of short-term loan, overdraft, financing of bills/invoices, letter of credit, forward exchange/options

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Fertiliser Industry](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

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