



# नेशनल फर्टिलाइजर्स लिमिटेड

(भारत सरकार का उपक्रम)

कॉर्पोरेट कार्यालय : ए-11, सेक्टर-24, नोएडा - 201301

जिला गौतम बुद्ध नगर (उ.प्र.),

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## NATIONAL FERTILIZERS LIMITED

(A Govt. Of India Undertaking)

Corporate Office : A-11, Sector-24, Noida-201301,

Distt. Gautam Budh Nagar ( U.P.)

Ph.: 0120-2412294, 2412445, Fax : 0120-2412397

Ref No. NFL/SEC/SE/529

Dated: 25.04.2022

<b>Manager, (Listing), National Stock Exchange Limited, Registered Office (Exchange Plaza), C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai-400051.</b>	<b>Department of Corporate Services, BSE Limited, Floor 25<sup>th</sup>, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400001.</b>
<b>NSE Symbol: NFL</b>	<b>BSE Script Code: 523630</b>

**Sub: Intimation of Credit Rating.**

Dear Sir,

Pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015, we hereby inform that India Ratings & Research Pvt. Limited, has assigned the following ratings to the Company (copy attached):

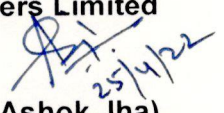
<b>Instrument Type</b>	<b>Rating Limit</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	(in Billion)		
Fund-based working capital limits	INR 40	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	INR 20	IND A1+	Affirmed
Commercial paper (CP)*	INR 40	IND A1+	Affirmed

\* CP is within the fund-based working capital limits. CP program and fund based working capital limits are interchangeable with total borrowing capped at lower of the drawing power or the sanctioned fund-based limit.

This is for your information and record.

Thanking You,

**Yours faithfully,  
For National Fertilizers Limited**

  
**(Ashok Jha)**

**Company Secretary**

**Encl: As above**

## India Ratings Affirms National Fertilizers at 'IND AA-' / Stable

Apr 22, 2022 | Fertilizers

India Ratings and Research (Ind-Ra) has affirmed National Fertilizers Limited's (NFL) Long-Term Issuer Rating at 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR40	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	-	INR20	IND A1+	Affirmed
Commercial paper (CP)	-	-	7-365 days	INR40	IND A1+	Affirmed

\*CP is within the fund-based working capital limits. CP programme and fund-based working capital limits are interchangeable with total borrowing capped at lower of the drawing power or the sanctioned fund-based limits.

**Analytical Approach:** To arrive at the ratings, Ind-Ra continues to take a bottom-up approach, factoring in the consolidated profile of NFL and its joint ventures (Urvarak Videsh Limited and Ramagundam Fertilizers and Chemicals Limited (RFCL, '[IND A+ / Negative](https://www.indiaratings.co.in/pressrelease/57263)')) and also factored in the availability of support from the government of India (GoI).

### Key Rating Drivers

**Improvement in Performance Driven by Trading and Industrial Products Segment:** NFL's performance improved during 9MFY22, supported by the robust performance of the trading and industrial product segment. Its trading EBIT increased to INR3.8 billion in 9MFY22 (9MFY21: INR2.5 billion; FY21: INR2.9 billion), driven by an increased per tonne margin, owing to the timely placement, inventory gains and demand-supply mismatch. However, it saw a marginal decline in volume to 1.3 million metric tonnes (mmt) (9MFY21: 1.5mmt; FY21: 1.95mmt). NFL benefited from the increase in volume over FY21 and FY22 as the company is one of the fertiliser marketing entity (FME) for importing urea on the government account (9MFY22: 0.46mmt; 9MFY21: 0.8mmt; FY21: 1mmt) and also marketed urea on behalf of RFCL totalling 0.2mmt (9MFY21: nil; FYE21: nil). Ind-Ra expects a decline in urea imports as an FME, due to the ramp-up in domestic manufacturing and higher volume from RFCL as the plant is scaling up its production to reach 1mmt by end FY23. Thus, the bulk of the trading segment profitability in FY22 came through the NPK trading. Ind-Ra expects the trading margins on NPK in FY23 to moderate to average INR2,500-INR3,000/t as fertiliser companies have raised prices selectively, lower than the purchase cost, in anticipation of higher subsidy rate announcements. Ind-Ra expects the NPK volumes to marginally decline in FY23, owing to higher prices, although the impact can be further exacerbated in the absence of higher subsidy rates. Its overall profitability was also supported by the increased profitability in the industrial product segment given the increased volumes and better realisations. The EBIT from industrial and other product segment increased to INR1.3 billion in 9MFY22 (9MFY21: INR0.5 billion). The company plans further capex in the industrial product segment to diversify from the agricultural segment.

**Decline in Urea Segment Margins in FY22; likely to Improve in FY23:** During FY22, the urea segment profitability declined, due to: i) tighter energy efficiency norms effective from 1 October 2020, ii) the actual efficiency of its plants exceeding the norms, with the weighted average gas utilisation increasing to around 6.2Gcal/t for FYE22 against the norm of 5.96Gcal/t; iii) higher landed gas cost, which increased to USD15/mmBtu in FYE22 (FYE21: USD9/mmBtu); and iv) lower fixed cost absorption as the plants saw a decline in urea production to 2.6mmt (9MFY21: 2.85mmt) due to the plant shutdown for implementing energy efficiency schemes (EES). However, in FY23, with the completion of the EES, Ind-Ra expects the company to operate the plants at equal/less-than-normal levels, leading to energy savings. Ind-Ra expects the urea business to report an EBITDA of INR5 billion-6 billion in FY23.

**Subsidy Burden to Increase due to High Input Costs:** In FY23, the government budgeted INR1.05 trillion for the fertiliser sector, with INR632 billion towards urea, and INR420 billion for NPKS. However, Ind-Ra expects a reasonable shortfall in the subsidy of nearly INR1 trillion, due to the increase in raw material prices. Ind-Ra estimates additional budgetary support, with the likelihood of the government increasing the NBS rates, and incentivising the domestic urea production, given higher imported prices.

The fertiliser sector received additional budgetary support in FY22, with the overall additional subsidy allocation increasing to INR1.4 trillion from the initial budgeted subsidy of INR795 billion. The increase in subsidy allocation led to a continued disbursement of subsidy outstanding, with bills cleared till the first week of March 2022. The subsidy receivables increased marginally to INR22.2 billion as of 9MFY22 (FYE21: INR21.7 billion; FYE20: INR69.9 billion). The management expects a subsidy outstanding of INR2.5 billion-3 billion for FYE22, including the receivable outstanding on account of: i) inventory with NFL, ii) inventory with NFL's dealers, and iii) from the escalation of urea subsidy due to the non-receipt of revision in gas prices on which the billing is done by the government.

**Liquidity Indicator- Adequate:** NFL's cash and bank balances increased to INR393 million as of FYE21 (FY20: INR196 million; FY19: INR166 million). The company had interchangeable fund-based and non-fund-based working capital limits worth INR130 billion, utilisation of which remained comfortable at 27% and 41%, respectively, for 12 months ended February 2022. NFL has access to low-cost banking finance, CP and inter-corporate deposits, due to its sovereign ownership. The company has term-debt repayment obligations of INR1.04 billion each for FY23 and FY24.

NFL's cash flow from operations improved to INR67 billion (FY20: negative INR8.8 billion), due to clearing of subsidy backlog, which would moderate in FYE22, due to the decline in the EBITDA. Furthermore, the company continued to timely receive its subsidy bills, with subsidy receivable outstanding of INR22.2 billion until 9MFY22 (FY21: INR21.7 billion; FY20: INR93.4 billion). The company completed its energy efficiency capex in FY22, and plans capex of only around INR600 million for FY23-FY24 to expand industrial products capacity and set up an agrochemical plant. However, NFL has also been nominated in 2018 as a joint venture partner for setting up a 1.27mmt per annum urea unit in Assam at the facility of Brahmaputra Valley Fertiliser Corporation Limited, with an equity contribution of 28%, entailing an equity contribution of around INR5 billion-6 billion. NFL is contracting with Project Development India Limited (PDIL) for the preparation of the techno-economic feasibility report. The proposal along with the techno-economic feasibility report has been submitted to DoF and

the same is under review. Additionally, the company has provided a letter of comfort to RFCL. However, the management does not expect any additional support from GoI to be provided in the short- to medium-term. Furthermore, the company has entered into a memorandum of understanding in July 2021 with IFFCO to set up a nano fertiliser plant, for which the techno-economic feasibility study is under process. The management looks to incur the capex outlay of INR3 billion for the project over 18 months. NFL did not declare any dividend in FY21, owing to the capex programme; however, the cash flows would continue to remain dependent on the dividend outgo.

**Moderate Credit Metrics in FY22, likely to Improve:** In 9MFY22, NFL's net adjusted leverage (net debt/EBITDA adjusted for subsidy receivables) increased to 1.9x (FYE21: negative 0.4x; FYE20:1.3x), led by a decline in its EBITDA, and the interest coverage improved to 4.2x (3.14x; 2.14x), led by the decline in the finance costs, owing to the moderation in the average interest rates the company received (9MFY22:4%; FY21:5.8%). As of 9MFYE22, NFL's gross debt stood at INR31.6 billion (FYE21: INR18.5 billion), with long-term loans of INR7.46 billion (INR7.52 billion), drawn for the EES capex, and short-term loans of INR25.1 billion (INR11.4 billion) to fund the net working capital, and subsidy receivables outstanding. Ind-Ra expects the gross debt and subsidy receivables to remain stable at FYE22.

However, given the uptick in prices of gas for urea and traded goods, Ind-Ra expects the year-end subsidy burden to increase for FYE23, leading to elevated levels of subsidy outstanding for the fertiliser industry. The agency expects a timely intervention by the GoI to support the sector and keep the overall subsidy dues comfortable. Furthermore, the company has capex plans for expansion of industrial products, and agrochemicals, nano urea, and investments in Brahmaputra Valley Fertiliser Corporation. The impact of the debt raised for the capex and investments on the credit metrics would continue to remain a key rating monitorable.

**Continued Government Support; despite Stake Dilution:** While the GoI holds a 74.71% stake in NFL, it has announced a 20% stake dilution by way of offer for sale. However, Ind-Ra expects the support from GoI to continue as the majority shareholder and the strategic importance of the company to continue. The government had supported NFL earlier by providing capital grants for ammonia feedstock changeover project at Nangal, Panipat and Bathinda units, with INR1.7 billion in FYE21 as a return of own funds on past period subsidy on finalisation of ammonia feedstock changeover project cost by department of fertilisers. NFL expects the government's support in its energy efficiency capex, which was completed in FYE22. The company is looking at a relaxation in the energy efficiency norms on the urea plants at Nangal, Panipat and Bhatinda over FY21-FY25 or a support in the form of one-time capital subsidy, which could help it recover its investments. Ind-Ra expects the government to support NFL as it is a strategically-important entity in the fertiliser sector in terms of size, market share and distribution network.

## Rating Sensitivities

**Positive:** Stable consumption of energy below the normative levels, along with an increase in the operating profitability and an improvement in the credit metrics, on a sustained basis, would be positive for the ratings.

**Negative:** The company operating above the normative energy efficiency norms, low operating profitability, debt-led capex or investments, leading to the net adjusted leverage (after adjusting the fertiliser subsidy) exceeding 2.5x, on a sustained basis, and/or weakening of support from the government, would be negative for the ratings.

## ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on CIFCL, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here (<https://www.indiaratings.co.in/PressRelease?pressReleaseID=56916>). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here (<https://www.indiaratings.co.in/PressRelease?pressReleaseID=57016>).

## Company Profile

Incorporated in 1974, NFL is the second-largest urea manufacturer in India, with a 15% market share at FYE21. It operates five urea plants: one each in Panipat (0.51mmt), Bathinda (0.51mmt), Nangal (0.48mmt) and two in Vijapur (0.86mmt each). The company produced 3.8mmt of urea (117% of reassessed capacity) in FY21.

## FINANCIAL SUMMARY

Particulars	9MFY22	FY21	FY20
Net revenue (INR billion)	114	119.1	131.4
EBITDA	3.99	9.1	8.6
EBITDA margin (%)	3.5	7.7	6.5
Interest coverage (x)	4.2	3.14	2.1
Subsidy adjusted net leverage (x)	1.9	-0.4	1.3
Source: Ind-Ra, NFL			

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

## Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	
				23 April 21
Issuer rating	Long-term		IND AA-/Stable	IND AA-/St
Fund-based working capital limit	Long-term/Short-term	INR40	IND AA-/Stable / IND A1+	IND AA-/Stable /
Non-fund-based working capital limit	Short-term	INR20	IND A1+	IND A1+
CP	Short-term	INR40	IND A1+	IND A1+

## Bank wise Facilities Details

Click here to see the details (</racbankwisefacility/58172>)

## Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based working capital	Low
Non-fund-based working capital	Low
CP	Low

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

## Contact

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