GUJARAT STATE FERTILIZERS & CHEMICALS LIMITED

Fertilizernagar - 391 750. Vadodara, Gujarat, INDIA.
CIN : L99999GJ1962PLC001121

NO.SEC/2022 **29th September, 2022**

The Corporate Relationship Department BSE Limited 1st Floor, New Trading Ring Rotunda Bldg., P.J.Towers, Dalal Street Fort, MUMBAI - 400 001	The Manager, Listing Department National Stock Exchange of India Ltd. 'Exchange Plaza', C/1, Block G Bandra-Kurla Complex Bandra (East), MUMBAI - 400 051

SCRIP CODE: **500690** SYMBOL: **GSFC**

Dear Sirs/Madam,

Subject: Intimation of Credit Ratings.

In accordance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform that CARE Ratings has, vide its letter dated 27th September, 2022 received on 28th September 2022, reviewed and reaffirmed the following rating:

The details of the same are as below;

Instrument Type	Rating/Outlook
Long Term Bank Facilities	CARE AA+
Short Term Bank Facilities	CARE A1+

Kindly take the same on records.

Thanking you,

Yours faithfully,
For Gujarat State Fertilizers & Chemicals Ltd.,

VACHHRAJANI VISHVESH VYOMESH

Digitally signed by VACHHRAJANI VISHVESH VYOMESH
DN: c=IN, st=Gujarat, 2.5.4.20=0bea7bd8129212858b9347d81cc2ffb34191db3fd38684d97d24716b34fd26cd, postalCode=390021, street=11-B, Sarabhai Society, Opp. Asopalav Flats, Gotri Road, serialNumber=751372c9ce0d524fbfe04de95f5bb4a04074ca8bbbf704eb08b2c457b333c9f1, o=Personal, cn=VACHHRAJANI VISHVESH VYOMESH, pseudonym=76935d37efc8c47d1cebe050f25d5f8e
Date: 2022.09.29 15:16:06 +05'30'

CS V.V.Vachhrajani
Company Secretary &
Sr. Vice President (Legal & IR)
E-mail : vishvesh@gsfcltd.com

Gujarat State Fertilizers & Chemicals Limited

September 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	300.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	2,865.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**3,165.00 (₹ Three thousand one hundred sixty-five crore only)**		
Commercial paper	1,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total instruments	**1,000.00 (₹ One thousand crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings of Gujarat State Fertilizers & Chemicals Limited (GSFC) continue to derive strength from its established and integrated operations in fertilizers and industrial chemical products, with a diversified product profile and a dominant market position in most of its products and the strategic investment towards backward integration for securing the supply of key raw materials. The ratings also derive comfort from the improved performance of its fertilizer and industrial products divisions during FY22 (refers to the period from April 1 to March 31) on the back of an increase in the subsidy rates by the Government of India (GoI) and the healthy spread in industrial products. Also, the ratings draw strength from its comfortable leverage and strong liquidity arising from the substantial realisation of its past subsidy dues in FY21 and its regular receipt thereon.

The long-term rating, however, continues to be constrained by the risks associated with the regulated nature of the fertilizer industry; the elevated level of raw material prices putting pressure on the subsidy budget of the GoI, which can potentially result in an elongation of the operating cycle, and in turn, higher the reliance on short-term borrowings; the volatility in the prices and supply of key raw materials, fluctuation in forex rates, and the cyclicality associated with other industrial products.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant diversification of GSFC's operations to other fertilizer products along with a significant increase in its scale and earning return on capital employed (ROCE) above 25% on sustained basis.
- Improved profitability margin in both fertilizer and industrial product divisions, leading to an overall profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of more than 12% on a sustained basis.
- Effective management of its working capital requirements with timely receipt of subsidy from the GoI, resulting in maintaining its operating cycle to less than 90 days.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Moderation in its PBILDT margin to less than 7% on a sustained basis.
- Moderation in its market position in the fertilizer business.
- Significant build-up of subsidy receivables, leading to elongation in the operating cycle beyond 200 days on a sustained basis, which can have an adverse impact on its liquidity.
- Major debt-funded capex or increase in working capital borrowings to fund large subsidy receivables, leading to a deterioration in its Total Debt/PBILDT to more than 3x on a sustained basis.
- Any adverse changes in the regulations governing the fertilizer industry and/or unforeseen material liability arising w.r.to any long-pending disputed matters.

Detailed description of the key rating drivers

Key rating strengths

Well-established and integrated operations along with a diversified product profile: GSFC's product range includes fertilizer products (manufacturing) like di-ammonium phosphate (DAP), ammonium sulphate (AS), ammonium phosphate sulphate

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

(APS), urea, and industrial chemical products like caprolactam, nylon-6 (N-6), melamine, MEK oxime, etc. Furthermore, GSFC trades in DAP, urea, ammonia, methanol and other fertilizers, as well as industrial products.
GSFC's operations are marked by a high level of vertical integration across both, the fertilizers and industrial products divisions. GSFC meets part of its ammonia and sulphuric acid requirement for the manufacturing of fertilizers and a few industrial products through captive production. Furthermore, the captive production of caprolactam is used for manufacturing Nylon-6. The integrated manufacturing facilities attempt better utilisation of the available resources.

Improved performance of the fertilizer division, supported by a hike in subsidy rates: The performance of GSFC's fertilizer division improved, marked by a total operating income (TOI) of ₹6,150 crore during FY22 (PY: ₹5,863 crore). However, the division suffered a significant decline in sales volumes by around 25% on account of elevated raw material prices. Its profit before interest and taxes (PBIT) margin from the fertilizer segment improved from 6.29% during FY21 to 11.28% during FY22 partly due to high subsidy booking even for the earlier years. The revenue from operations is expected to improve in FY23, largely due to good demand on account of the monsoons and the upcoming Rabi season and an increase in subsidy rates by the government for FY23.
The performance of the fertilizer division improved further in Q1FY23, marked by a TOI of ₹2,279 crore (₹1,246 crore in Q1FY22) with a PBIT margin of 21.52% (6.74% in Q1FY22). Going forward, the profitability of the fertilizer segment is likely to be impacted by the continued elevated level of prices of its key raw materials.

Significant improvement in the performance of industrial products in FY22, albeit expected to moderate in FY23: The performance of GSFC's industrial products division improved in FY22, marked by a TOI of ₹2,933 crore (PY: ₹1,771 crore) and its segment PBIT of ₹524 crore (PY: ₹126 crore) on account of higher caprolactam-benzene spread and melamine sales during the year. However, the profitability margin for the industrial products division moderated substantially to 4.30% in Q1FY23 on the back of higher input costs. Accordingly, the performance of its industrial products division is likely to moderate in FY23.

Comfortable leverage and debt coverage indicators: GSFC had almost nil leverage as on March 31, 2022, owing to a steady realisation of subsidy dues from the GoI. This resulted in comparatively low working capital requirements, and thereby, lower interest costs. The company is expected to fund its ongoing capex from its available liquidity and has no plans for any debt-funded capex in the short term, which is likely to result in continued comfortable leverage and debt coverage indicators going forward.

Strategic investments towards backward integration mainly to secure steady supplies of raw material and power: To secure the steady supply of phosphoric acid (PA) (the availability of which remains volatile) in order to increase the capacity utilisation of its complex fertilizer portfolio at its Sikka plant, GSFC had bought 15% stake in Tunisian Indian Fertilizers, S.A. (TIFERT). Through this investment, GSFC is entitled to receive 180,000 metric tonne (MT) of PA per annum at the market price. During FY22, GSFC received 63,808 MT of PA (FY21: 52,388 MT) from TIFERT.

Furthermore, to add potassium (K) to its fertilizer portfolio and to capture a larger market share in NPK fertilizers, GSFC has also invested in a Canada-based company – Karnalyte Resources Inc. (Karnalyte; engaged in the business of exploration and development of high-quality agricultural and industrial potash and magnesium products). GSFC has signed an off-take agreement with Karnalyte for 20 years for the purchase of approximately 350,000 tonne of potash per year from the 1st phase of project. GSFC, in July 2022, also decided to invest around ₹20 crore (CAD 3.25 million) in the rights issue of the company. However, considering upward trend in Potash prices, Karnalyte is in the process of updating Technical Report and further actions will be decided based on outcome of that report.
GSFC also benefits from its wind farm with a capacity of 152.80 MW, captive gas-based power plant of 45 MW, waste heat recovery steam generator of 15 MW, and a solar power plant of 10 MW. GSFC also has investments in Gujarat Industries Power Co Ltd (GIPCL; rated CARE AA-; Stable/CARE A1+), where by virtue of being a promoter, GSFC has the availability of 38 megawatt (MW) of power out of GIPCL's gas-based power plant of 145 MW.

Modular capex under progress, albeit large size capex plans under deliberation: GSFC has proposed to undertake a few modular size projects, which include an ammonium sulphate plant (400 metric tonne per day (MTPD)), an HX crystal project (20 MTPD), a solar power project (15 MW), along with revamping of its urea plant at Vadodara to meet NUP 2015 energy consumption norms and improve its production capacity. Overall, its capex plan for the next three years amounts to around ₹770 crore, which is expected to be funded entirely from its internal accruals and surplus liquidity.
However, GSFC has a few major capex plans under the deliberation stage, which include a phosphoric acid (600 MTPD) and sulphuric acid plant (1,800 MTPD) at Sikka and a melamine plant (40,000 MTPA). Also, as part of the green initiatives of the GoI for clean energy-related actions and reducing the country's dependence on natural gas carbon print, GSFC is considering setting up a green hydrogen project (1.44 kilo tonne per annum (KTPA)) at its Vadodara unit. The size of these projects is expected to be substantially high.

GSFC has significant headroom for undertaking some debt-funded capex, with a comfortable overall gearing. However, the undertaking of any of these major capex plans with a high reliance on the debt will be a key credit monitorable.

Liquidity: Strong
The liquidity of GSFC is strong, marked by healthy expected cash accruals against no-term debt repayment obligations and low average utilisation of its fund-based limit at around 11% in the last 12 months ended June 30, 2022. It had cash and fixed deposits (largely parked with Gujarat State Financial Services Limited) of around ₹1,580 crore as on March 31, 2022. It also had substantial quoted equity investments to the tune of ₹5,315 crore as on March 31, 2022.
GSFC has sanctioned fund-based working capital limits of ₹300 crore with a consortium of lenders and it has ₹1,265 crore of working capital limits with a set of lenders outside the consortium. Furthermore, it has sanctioned non-fund-based working capital limits of ₹1,600 crore, which is utilised for the import of its raw material requirements. The operating cycle of GSFC also improved substantially on account of receipt of subsidy backlogs.

Key rating weaknesses
Regulated nature of the fertilizer industry and inherent delays associated with the release of the subsidy from the GoI: The profitability of fertilizer manufacturers is influenced by the regulations governing various types of fertilizers, wherein, the government controls the fertilizer prices and provides subsidies. The quantum of subsidy receivables and delays associated with the receipt of the same inherently impacts the liquidity of the fertilizer industry, albeit differs with the type of fertilizer. During FY22, the fertilizer manufacturers curtailed the production of a few fertilizers, primarily DAP, wherein, few manufacturers incurred losses in FY22 due to the multi-year elevated input prices. However, there has been a sharp upward revision in the subsidy rates for all the nutrients for H1FY23. In the Union Budget for FY23, the GoI had initially provided for a total fertilizer subsidy of ₹1.05 lakh crore, which was subsequently enhanced by another ₹1.10 lakh crore in May 2022 looking at the elevated prices of key raw materials and natural gas, thereby taking the total fertilizer subsidy budget for FY23 to an all-time high of ₹2.15 lakh crore.
The shortfall in the subsidy budget amid the volatile raw material prices may lead companies to resort to higher short-term borrowings to fund extended subsidy receivables. Regular intervention by the government to increase the subsidy budget, NPK nutrient rates, and minimum selling prices (MSP) help the sector to work in a regulated manner. The government is also planning to implement the second phase of DBT and is planning to explore the option of directly transferring the subsidy to the farmers' accounts, which can be beneficial for the fertilizer companies. However, it will have a substantial burden on the government finances, and accordingly, the rollout of the second phase of DBT can take some time.

Event risks: GSFC had provided a sponsor guarantee for US$ 41.1 million (proportionate to the shareholding of 15%) towards the borrowings of TIFERT. In March 2017, TIFERT requested a re-scheduling of the instalment due to its lenders. However, while the same was under discussion, an acceleration notice was served on TIFERT by its lenders on March 28, 2017. The loan instalment was immediately paid by TIFERT along with interest on March 31, 2017. However, on April 4, 2017, the lenders followed up with a 'call' notice on TIFERT's shareholders towards the guaranteed amount. TIFERT has paid the subsequent instalments due as per the schedule and the guarantee provided by GSFC expired on March 31, 2018.
As articulated by the company, TIFERT will be in a position to meet its future debt obligations and it is unlikely that an event of payment under the guaranteed amount will arise on GSFC.

Analytical approach: Consolidated
CARE Ratings Limited (CARE Ratings) has adopted the 'Consolidated' analytical approach for GSFC, as there are strong operational and financial linkages among GSFC and its subsidiaries. Also, GSFC has actively started retail operations through its wholly owned subsidiary, viz, GSFC Agrotech Limited, through its retail stores. The list of companies consolidated has been placed in **Annexure-4**.

Applicable criteria
Criteria for assigning 'outlook' and 'credit watch' to credit ratings
CARE Ratings' policy on Default Recognition
Rating methodology – Manufacturing companies
Rating methodology – Fertilizer companies
Rating methodology – Consolidation
Liquidity analysis of non-financial sector entities
Financial ratios – Non-financial sector
Criteria for short-term instruments

About the company

Incorporated in 1962, GSFC is a public sector undertaking promoted by the Government of Gujarat (GoG). GoG, through its undertaking, Gujarat State Investment Ltd (GSIL), owns 37.84% of the paid-up capital of the company. The chairman and managing director of the company are appointed by GoG.

GSFC operates in two segments: (i) fertilizers and (ii) industrial products, with integrated manufacturing facilities enabling it to benefit from synergies by manufacturing a host of fertilizers and industrial products. Fertilizers contribute around 60-70% to the TOI, whereas industrial products contribute a balance of 30-40%. GSFC manufactures fertilizers like DAP, AS, APS and urea, and industrial products like caprolactam, nylon-6, melamine, MEK oxime, and polymers, among others.

Brief Financials (Consolidated) (₹ Crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	7,644	9,095	3,049
PBILDT	584	1,334	556
PAT	450	899	346
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	13.59	136.56	176.39

A: Audited; UA: Unaudited; NA: Not available.
Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to Annexure-2

Covenants of the rated instruments: Not applicable

Complexity level of the various instruments rated for this company: Please refer to Annexure-3

Annexure-1: Details of instruments/ facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	300.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	1,600.00	CARE A1+
Fund-based - ST-Others	-	-	-	-	1,265.00	CARE A1+
Commercial paper-Commercial paper (Standalone)*	-	-	-	7-364 days	1,000.00	CARE A1+

* No commercial paper was outstanding as on August 31, 2022.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Cash credit	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (September 28, 2021)	1)CARE AA+; Stable (September 29, 2020)	1)CARE AA+; Stable (October 04, 2019)
2.	Non-fund-based - ST-BG/LC	ST	1,600.00	CARE A1+	-	1)CARE A1+	1)CARE A1+	1)CARE A1+

						(September 28, 2021)	(September 29, 2020)	(October 04, 2019)
3.	Commercial paper-Commercial paper (Standalone)	ST	1,000.00	CARE A1+	-	1)CARE A1+ (September 28, 2021)	1)CARE A1+ (September 29, 2020)	1)CARE A1+ (October 04, 2019)
4.	Fund-based - ST-Others	ST	1,265.00	CARE A1+	-	1)CARE A1+ (September 28, 2021)	1)CARE A1+ (September 29, 2020)	1)CARE A1+ (October 04, 2019)

*Long-term/Short-term.

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Commercial paper-Commercial paper (standalone)	Simple
2.	Fund-based - LT-Cash credit	Simple
3.	Fund-based - ST-Others	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Annexure-4: List of entities getting consolidated with GSFC

Sr. No.	Name of Companies/Entities	Percentage holding as on March 31, 2022 (%)
1.	GSFC Agrotech Ltd	100.00
2.	Gujarat Port & Logistics Company Ltd.	60.00
3.	Vadodara Jalsanchay Pvt Ltd.	60.00
4.	Vadodara Enviro Channel Limited	28.57
5.	Gujarat Green Revolution Company Limited	46.87
6.	Karnalyte Resources Inc (Canada)	38.73

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the

Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please visit www.careedge.in**