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Ref. No.: 2021-22/54

August 27, 2021

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051.
Scrip Code: COROMANDEL

Through: NSE NEAPS

BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001.
Scrip Code: 506395

Through: BSE Listing

Dear Sirs,

Subject : Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 – Revision in Credit Rating

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that India Ratings & Research Private Limited vide its letter dated August 27, 2021, affirmed the long-term issuer rating at "IND AA+" with a Company's outlook revised from "Stable" to "Positive".

The details of the ratings are as follows:

Facility / Instrument Rated	Rating Type	Current Rating	Rated Amount (Rs. Crores)	Previous Rating	Rated Amount (Rs. Crores)
Issuer rating	Long-term	IND AA+/Positive	-	IND AA+/Stable	-
Commercial Paper	Short-term	IND A1+	1,000 (reduced from 2,000)	IND A1+	2,000

We request you to take this on record.

Thanking you,

Yours faithfully,
For **Coromandel International Limited**

Rajesh Mukhija
Sr. Vice President – Legal &
Company Secretary

murugappa

Login

India Ratings & Research
A Fitch Group Company

India Ratings Revises Coromandel International's Outlook to Positive; Affirms 'IND AA+'

27

AUG 2021

By Ashish Agrawal

India Ratings and Research (Ind-Ra) has revised Coromandel International Limited's (CIL) Outlook to Positive from Stable while affirming its Long-Term Issuer Rating at 'IND AA+'. The instrument-wise rating action is given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating	Rating Action
Commercial paper (CP)	-	-	Up to 180 days	INR10 (reduced from INR20)	IND A1+	Affirmed

The CP proceeds will be used for meeting CIL's working capital requirements.

Analytical Approach: Ind-Ra continues to combine the business and financial risk profiles of CIL and its associate and subsidiary companies to arrive at CIL's ratings, considering the operational, managerial, financial linkages between them.

The Positive Outlook reflects Ind-Ra's expectation of a sustained improvement in CIL's profitability in FY22, with improved stability in its EBITDA margin, led by an enhanced product mix, and its continued strong credit metrics. Ind-Ra expects CIL's non-subsidised business (led by continued strong research and development efforts and the introduction and acceptance of new molecules in this segment) to witness continued growth, resulting in increased market share and healthy margins. The outlook revision also factors in the sustained resilience of the company's nutrient & allied business (NAB) segment. The financial risk profile of the entity also improved structurally during FY21 post the clearance of subsidy backlog by the government of India (GoI) resulting in a meaningful improvement in working capital cycle and credit metrics. This, the agency believes will sustain in the medium term given strong cash flow generation and limited capex plans.

KEY RATING DRIVERS

Resilient Business Profile & Strong Balance Sheet: CIL is a complete farm solutions provider with presence across fertilisers; specialty nutrients; crop protection chemicals (CPC); bio-pesticides; water-soluble fertilisers, and other allied businesses, which it manages by its strong retail presence with over 750 Gromor-branded retail stores across India. It is the second-largest player in the country in the phosphatic fertiliser space with a market share of 15.3% in FY21 (FY20: 15.7%) and the largest single super phosphate player with a share of 14% (14%). The resilience observed in business operations over the last two-to-three years arises out of:

- the company's capability to manufacture unique grades of fertilisers (about 40% share in FY21) leading to margin sustenance
- partial backward integration to produce phosphoric acid (PA) and the capability to handle various grades of rock phosphates, thus largely shielding it from fluctuation in raw material prices
- strong R&D capability, resulting in continuous introduction of new products in the evolving CPC business.

CIL further benefits from its presence in the manufacturing of non-urea fertilisers, where the share of subsidy in the total revenue was 23.4% in FY21 (FY20: 24.7%); the same is 70%-80% for urea manufacturers. Hence, non-urea manufacturers are less dependent on subsidy receivables than urea players. Due to this, the impact of delays in the industry-wide subsidy disbursements from the government of India (GoI) remains limited for non-urea players, such as CIL. Furthermore, the sector-wide clearance of subsidy backlog by the GoI during FY21 by way of additional subsidy budget allocation has resulted in a structural reduction in the entity's subsidy levels to INR5.9 billion in FY21 (FY20: INR23.2 billion; FY19: INR23.9 billion). CIL does not have any long-term debt and the utilisation of short-term borrowings and the interest expenses have reduced. The company became net debt negative in FY21 and is expected to remain the same in the near-to-medium term.

The company also benefits from the strategic importance of the industry to the GoI, considering fertiliser is an essential commodity. Additionally, the GoI is focusing on increasing the farm income by increasing the minimum support prices of crops; allowing farmers to directly sell produce in the markets; implementing direct benefit transfer for urea; issuing soil health cards, and improving farm irrigation infrastructure in CIL's key marketing areas. Ind-Ra expects all these measures to aid the business and financial profile of CIL over the medium term.

Improved EBITDA Margin Likely to Sustain in the Medium Term: CIL's operating EBITDA margin improved to 14.2% in FY21 (FY20: 13.2%); the EBIT margin from the NAB segments expanded to 13.8% (13.0%) and that from the CPC segment rose to 16.6% (13.1%). The improvement in NAB segment's margins was primarily supported by soft raw material prices during 9MFY21, and the CPC segment's margins were supported by improved capacity utilisation of the Sarigam (Gujarat) plant leading to higher production and improved absorption of the fixed costs. During FY21, the company's share of subsidised: non-subsidised products at the EBITDA level improved to 72:28 (FY20: 75:25) owing to an increase in the CPC segment's revenues and profitability. CIL intends to increase the share of non-subsidised products to lower its working capital and expand its margins.

Despite a sharp increase in input prices, CIL's EBITDA margin expanded to 13.2% in 1QFY22 (1QFY21: 12.8%), led by continued demand in both the segments; a better product mix, including an increased share of unique-grade fertilisers; improved raw material sourcing and operational efficiency.

The GoI has allocated an additional subsidy of INR147.8 billion by way of higher nutrient based subsidy rates to soften the impact of rising fertiliser input prices on nitrogen-phosphate-potash (NPK) fertiliser manufacturers and to also prevent any significant build-up of year-end subsidy dues. While the EBITDA margins could still moderate during FY22 due to higher raw material prices, Ind-Ra expects CIL's EBITDA margins to sustain at current levels and face lower volatility than peers in the medium term, owing to:

- an increase in the share of high-margin, unique-grade fertilisers to 50% in its product portfolio (currently 40%)
- continued prudent inventory management
- strategic raw material sourcing and increased operational efficiency
- improved fixed-cost absorption on increased volumes across segments
- higher distribution reach and pricing power through its retail outlets, and
- an entry into newer agrochemical products that could go off patent.

Additionally, with global agrochemical players looking to diversify their supplies, CIL's CPC segment stands to benefit over the medium to long term. However, CIL's margin remains susceptible to volatility in the prices of key raw materials (rock phosphate, ammonia and sulphur); monsoons; minimum support prices for crops; channel inventory; delays in the realisation of the benefits of capex and the depreciation of the Indian rupee against the US dollar.

Strong Revenue Growth in FY21 to Continue in FY22: CIL's revenue grew 8.2% yoy to INR142.1 billion in FY21, led by a sharp 23.6% yoy increase in the CPC segment's revenues to INR20.8 billion, as well as 5.9% growth in the NAB segments' revenues to INR122.3 billion.

During 1QFY22, CIL's revenue increased 14% yoy to INR36.6 billion owing to an increase in both domestic and export sales. The CPC segment witnessed a sharp 50.3% yoy rise in revenue in 1QFY22, led by increased volumes and realisations. Ind-Ra expects CIL to register overall strong revenue growth in FY22, in view of a rise in both NAB and CPC business volumes and realisations, augmented by favourable monsoon prospects; high reservoir levels; good traction of unique-grade fertilisers and newer agrochemical molecules, and improved liquidity in the hands of farmers.

Credit Metrics Remain Strong: In FY21, CIL's net adjusted leverage (net debt/EBITDA adjusted for subsidy receivables) remained strong at negative 1.2x (FY20: negative 0.5x) and interest cover (EBITDA/gross interest expense) further strengthened to 19.1x (7.4x). The net leverage (net debt/EBITDA) also improved to negative 0.9x in FY21 (FY20: 0.9x); the leverage improved in FY21 due to a sharp fall in the gross debt to INR0.02 billion (INR16.3 billion) led by a higher subsidy release by the GoI, and an improvement in the operating EBITDA to INR20.2 billion (INR17.3 billion). However, CIL's gross debt increased to INR5.9 billion at end-June 2021 to fund the increase in subsidy receivables to INR11.5 billion as a result of an uptick in subsidy rates, while the net debt remained negative. CIL had lease payables of INR3.8 billion at FYE21 (FYE20: INR3.9 billion).

CIL incurred a capex of INR1.9 billion in FY21 (FY20: INR2.6 billion) largely towards its CPC segment, de-bottlenecking activities and other maintenance activities. Furthermore, CIL plans to incur a capex of INR5 billion-6 billion in FYE22 (to be funded fully by internal accruals) primarily for further de-bottlenecking activities, evaporator at Visakhapatnam (Andhra Pradesh) plant, liquid fertiliser plant at Visakhapatnam and regular maintenance.

Ind-Ra expects the credit metrics to remain strong in FY22 and FY23 on account of healthy EBITDA and cash flow generation and improved working capital cycle as a result of clearance of subsidy backlog.

Liquidity Indicator -Adequate: CIL's unrestricted cash and cash equivalent increased to INR22.3 billion at FYE21 (FYE20: INR5.0 billion), including liquid inter-corporate deposits of INR15.1 billion (INR4.3 billion) with various financial institutions. CIL's cash flow from operations, after adjusting for net interest expense, rose sharply to INR40.6 billion in FY21 (FY20: INR16.5 billion) due to the higher EBITDA and improved working capital position. CIL has about INR19 billion fund-based and INR55 billion non-fund-based sanctioned working capital limits whose average utilisation stood at 10% and 49%, respectively, for the 12 months ended July 2021.

CIL's liquidity position further strengthened during FY21 as its working capital cycle improved to 17 days (FY20: 40 days) due to a reduction in the year-end receivables (FY21: INR5.5 billion; FY20: INR17.3 billion), inventory (INR26.0 billion; INR27.0 billion), and payables (INR29.2 billion; INR33.5 billion). CIL's average utilisation of CPs were nil for the 12 months ended June 2021. The working capital limits are prudently kept vacant to the extent of the CP utilised.

CIL has INR214 million scheduled lease repayments in FY22, and the agency believes its debt-service coverage ratio is likely to be around 14x in the short-to-medium term. The company made dividend payments of INR5.3 billion in FY21 (FY20: INR1.2 billion) and is likely to continue dividend payments in FY22. Furthermore, CIL has access to low-cost banking finance, capital markets and inter-corporate deposits, and has strong financial flexibility being part of the Murugappa Group.

Proposed Ban on Few Pesticides/Molecules; Finalisation to have Marginal Impact on CPC Segment: The Ministry of Agriculture and Farmers' Welfare issued a draft order in May 2020 proposing to ban the manufacture and sale of 27 pesticides, including three molecules manufactured by CIL. The latter form a sizeable share of CPC segment's revenues and profitability. The industry, through its technical task force formed by Crop Care Federation of India, has been representing to the GoI on the draft notification. While CIL's profitability might get affected in case the ban is implemented, the agency believes the impact on the operating profit and credit metrics would be limited, given that the NAB is the major contributor to the revenue and profit, and the company continues to work on introducing newer products/molecules in the CPC segment.

RATING SENSITIVITIES

Positive: A sustained increase in profitability with improved stability in EBITDA margin led by an improved product mix and higher level of backward integration, while maintaining the current credit profile, could lead to a positive rating action.

Outlook Revision to Stable: Deterioration in operating profitability, or any adverse regulatory policy movement and/or the net leverage exceeding 1.5x on a sustained basis could lead to a outlook revision to Stable.

COMPANY PROFILE

CIL, a flagship company of the Murugappa Group, operates in two segments: CPC and NAB. The NAB segment comprises i) phosphatic fertilisers (di-ammonium phosphate, complexes, single super phosphate, muriate of potash), ii) specialty nutrients and organic fertilisers (G sulphur, water soluble fertilisers, organic manure) and iii) the retail business that provides agri inputs and agri services. The CPC segment comprises technicals, formulations and biopesticides. Its facilities are spread across India, but are largely concentrated in south India.

The company has the capacity to manufacture over 3.5 million tonnes per annum of fertilisers and pesticides, and 1 million tonnes per annum of single super phosphate. The subsidised products are phosphatic fertilisers, while all the other businesses form non-subsidised products.

FINANCIAL SUMMARY

Particulars (INR billion)	1QFY22	FY21	FY20
Net revenue	36.6	142.1	131.4
EBITDA	4.8	20.2	17.3
EBITDA (%)	13.2	14.2	13.2
Interest	0.2	1.1	2.4
Profit before tax	4.5	17.8	13.8
Source: CIL			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	28 August 2020	29 August 2019	11 February 2019	26 July 2018
Issuer rating	Long-term	-	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
CP	Short-term	INR10	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
CP	Low

For details on the complexity level of the instrument, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

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

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