नेशनल फर्टिलाइजर्स लिमिटेड
(भारत सरकार का उपक्रम)
कॉरपोरेट कार्यालय : ए-11, सैक्टर-24, नोएडा - 201301
जिला गौतम बुद्ध नगर (उ.प्र.),
दूरभाष : 0120 2412294, 2412445, फैक्स : 0120-2412397

एन एफ एल
NFL

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/ **Dated: 09.04.2020**

Manager (Listing), National Stock Exchange Limited, Registered Office (Exchange Plaza), C-1, Block-G, BandraKurla Complex, Bandra (E), Mumbai-400051.	**General Manager, Department of Corporate Services, BSE Limited, Floor 25th, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400001.**

Sub: Intimation of Review of Credit Rating.

Dear Sir,

Pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015, we hereby inform that ICRA Limited vide its communication dated March 27, 2020, received today, has assigned the following ratings to the Company:

Instrument Type	**Rating Limit**	**Rating Action**
	₹ in crore	
Long Term- CC Limits	5,000.00	[ICRA] AA- revised from [ICRA] AA; Outlook revised to Stable from Negative.
Term Loans	1167.75	[ICRA] AA- revised from [ICRA] AA; Outlook revised to Stable from Negative.
Short Term- Non fund based facilities	3,000.00	[ICRA]A1+; reaffirmed
Commercial Paper*	7,000.00	[ICRA] A1+; reaffirmed/assigned
Short Term Un-allocated Limits	10.25	[ICRA] A1+; reaffirmed
Total	**11,178.00**	

*Commercial paper program and Long Term CC Limits are interchangeable with total borrowing capped at lower of the drawing power or the sanctioned fund- based limits.

This is for your information and record.

Thanking You,

Yours faithfully,
For National Fertilizers Limited
Sd/-
(Ashok Jha)
Company Secretary

March 27, 2020

National Fertilizers Limited: Long term rating downgraded; Rating assigned to enhanced CP program; Outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-CC Limits	5,000.00	5,000.00	[ICRA]AA- revised from [ICRA]AA; Outlook revised to Stable from Negative
Term Loans	1167.75	1167.75	[ICRA]AA- revised from [ICRA]AA; Outlook revised to Stable from Negative
Short-Term - Non-fund-based facilities	3,000.00	3,000.00	[ICRA]A1+; reaffirmed
Commercial Paper^	6,000.00	7,000.00	[ICRA]A1+; reaffirmed/assigned
Short-term un-allocated limits	10.25	10.25	[ICRA]A1+; reaffirmed
Total	**10,178.00**	**11,178.00**	

**Instrument details are provided in Annexure-1; ^Commercial paper program and Long-term CC limits are interchangeable with total borrowing capped at lower of the drawing power or the sanctioned fund-based limits*

Rationale

The rating downgrade factors in the weakening cost competitiveness of NFL in urea operations, arising from sharp rise in energy consumption levels in the current fiscal, which was brought about by unscheduled plant outages. Besides, production of urea beyond RAC was also less remunerative in a scenario of subdued international prices of urea, which impacted its cash accruals. Going ahead, with tightening of energy norms by Government of India, applicable from FY2021, NFL's cash accruals will further take a hit, even though the company is embarking on an energy saving project, which will partially mitigate the risk. The downgrade in rating also factors the weakening credit metrics of the company due to elevated debt levels, brought about by a) higher subsidy receivables and increase in scale of trading operations leading to higher working capital borrowings and b) large debt funded capital expenditure, and investments in the Joint venture company, Ramagundam Fertilisers & Chemicals Limited (RFCL).

The energy consumption for all the plants of NFL have increased YoY in 9M FY2020 owing to the shutdowns undertaken in 9M FY2020. As a result, the energy savings of the company have reduced resulting in a fall in the profitability from the urea operations. Additionally, the profitability from the urea production beyond RAC which is benchmarked to the international urea prices has been only marginally positive in 9M FY2020 given the subdued international urea prices. As a result, the overall profitability from the urea operations has weakened in 9M FY2020 as against FY2019. The credit metrics of the company have moderated significantly with leverage (Total Debt/OPBDITA) increasing to 11.6x at the end of 9M FY2020 as against 8.1x at the end of FY2019, driven by the moderation in the operating profit during 9M FY2020.

ICRA also takes note that NFL is in the midst of a ~Rs. 1100 crore energy savings capex program to meet the energy norms applicable for the company from FY2021 onwards. Under New Urea Policy-2015 (NUP-2015), the energy norms for NFL's Nangal, Bhatinda, Panipat will be revised to 6.5 Gcal/MT and for Vijaipur-I will be revised to 5.5 Gcal/MT. As per ICRA estimates, NFL will witness nearly Rs. 300 crore negative impact on the operating profit, post the energy norm revision due to the reduction in the energy savings. The impact on the operating profit coupled with the additional debt being availed for the capex program will lead to significant deterioration in the credit metrics from FY2021 onwards. In order to mitigate the reduction in the energy savings, NFL is in discussions with the GoI regarding the extension of the current energy norms for another two to three years for the Nangal, Bhatinda and Panipat plants. The final decision on the deferment of energy norms and energy savings generated post the completion of the energy savings project will remain a key monitorable for the ratings.

The ratings also factor in the company's leading position in the markets of northern and central India, due to the proximity of the plants to key markets and their healthy operating efficiencies.

ICRA also takes note that nearly Rs. 1250 crore of revised fixed costs have been pending for the company from GoI under the Modified New Pricing Scheme-III (Modified NPS-III). While the additional fixed cost of Rs. 350/MT for all urea plants along with an additional fixed cost of Rs. 150/MT for plants more than 30 years old was announced in April 2014, the actual cash inflow to the companies is yet to happen. In a notification published in March 2020, Cabinet Committee of Economic Affairs (CCEA) has approved the additional fixed costs. The announcement is a positive for the company as the cash inflow will lead to significant improvement in the liquidity however, the timing of the actual cash inflow will remain a key monitorable. However, the recent notification has remained silent on minimum fixed cost of Rs. 2300/MT urea plants, which would have been applicable for Vijaipur-I (fixed cost getting revised from Rs. 1285/MT to Rs. 2300/MT). A significant portion of pending fixed costs are related to this plant and thus more clarity needs to emerge on this front.

NFL is a Joint Venture (JV) partner with a 26% stake in RFCL wherein the equity contribution for NFL has increased to Rs. 441 crore (from Rs. 392 crore earlier) due to cost escalations for the project. The company has invested Rs. 341.5 crore at the end of 9M FY2020. The project is expected to be commissioned by the end of March 2020 and will lead to an additional profit of Rs. 20 crore for NFL as it will be handling the marketing of RFCL’s urea.

The stable outlook on the long-term rating reflects ICRA’s opinion that the company would continue to benefit from its leading market position and majority sovereign ownership which lends significant financial flexibility to the company. While urea operations will witness negative impact on account of the revision in the energy norms, the scale up of trading operations will partially mitigate the pressure on the profitability, which should keep the cash accruals at adequate levels to meet the debt obligations.

Key rating drivers and their description

Credit strengths

Second largest urea manufacturing capacity; second in market share for urea sales with scale of traded urea- With nearly 3.57 MMT of urea production capacity, NFL is second only to IFFCO in the country. The company maintains healthy capacity utilisation levels for all its plants and stands second in the market share (~14%) for urea sales (including imported urea sold) in the country after IFFCO. NFL has a vast marketing network comprising dealers, cooperative societies and institutional agencies spread over twenty states in India. The company sells its urea through a network of 2,805 dealers, state marketing federations and cooperative societies. Sales through these institutions have increased through cooperatives and Marketing federations rather than through private dealers in recent years.

Large sovereign ownership: NFL benefits from the large GoI ownership, 74.71% presently, as it is able to raise funds at very competitive rates aiding its profitability as interest charges remain low. The Board of Directors include three independent directors including one female director and two directors nominated by the GoI out of the nine directors.

Favourable demand-supply scenario of urea in India - Nearly 24% of urea was imported in FY2019 owing to the demand-supply gap in India. Urea sales witnessed a modest growth of 4.7% YoY in FY2019 after a 2.4% YoY growth in FY2018. With a significant price differential between urea and non-urea fertilisers, the demand for urea remains intact and is expected to grow at a stable rate of 1.5%-2% in the near to medium term. With a significant import dependence for urea the demand for the indigenously produced urea remains favourable.

Improving product mix with increasing share of traded goods and industrial products - NFL has been expanding its industrial product portfolio leading to its increasing contribution to profitability, though FY2018 witnessed a decline from this segment. The company successfully ramped up its trading portfolio of imported fertilisers and other traded goods in FY2019 and YTD FY2020 which aided profitability. The change in the product mix overtime will result in lower dependence on urea for profitability.

Healthy operating efficiency of plants post AFCP capex programme - Post the ammonia feedstock conversion project (AFCP) undertaken for the Nangal, Bhatinda and Panipat plants in FY2013, the energy efficiency against pre-set norms and the capacity utilisation for the plants remained healthy. This aided the company's profitability with all three plants witnessing significant improvement in energy consumption in FY2019. However, in 9M FY2020, the energy efficiency of all the plants have witnessed deterioration particularly the Vijaipur plants which witnessed unplanned shutdowns in H1 FY2020 remaining above the normative energy norms during the period. Other three plants continue to maintain energy consumption below the normative energy levels, though have increased as compared to FY2019 leading to the fall in the energy savings.

Credit challenges

Vulnerability of profitability to agro-climatic conditions, regulatory risks and seasonality of fertiliser business - The agricultural sector in India remains vulnerable to the vagaries of monsoon as the area under irrigation remains low which exposes fertiliser sector's sales and profitability to volatility. The sector, being highly regulated, also remains vulnerable to changes in the regulations by the GoI.

Sensitivity of cash flows to delays in subsidy receipts from GoI; such delays led to high interest costs and adversely impacted profitability in recent years - The subsidy inflow from the GoI remained outstanding for nearly five to six months during the last few years, which impacted the cash flows of the fertiliser companies. To fund the delay in subsidy receipts, the companies have to avail working capital borrowings leading to large interest costs, which impact their profitability. With the implementation of Direct Benefit Transfer (DBT) for the fertiliser sector, the companies have started receiving the subsidy within two to three weeks, post-sale to farmers, after initial operational hiccups. However, with the transfer of the point of subsidy recognition from point of dispatch in the past to the point of sale to farmers under DBT, the working capital cycle of the fertiliser companies is expected to remain stretched.

Investments to meet NUP-2015 norms may not be remunerative, may lead to weakening of credit metrics unless GoI provides support - NFL is incurring a capex of around Rs. 910-crore for five of its plants to achieve pre-set norms under the NUP-2015. The implementation of energy norms for NFL's plants barring Vijaipur-II have been deferred by two years i.e. the norms are to be achieved by the end of FY2020 instead of the beginning of FY2019. NFL is implementing the capex which is expected to be completed in phases by September 2020 end. The investment will not be value accretive as the energy savings are expected to decline by Rs. 250-300 crore post tightening of the energy norms resulting in negative impact on the operating profit of the company. However, the capex will have to be incurred to meet the regulatory requirement. The company is in discussions with the GoI for the deferment of the revision in the energy norms for a couple of years from FY2021 onwards so that the company can recoup its investments and also service the debt being availed for the energy savings project. Given NFL's strategic importance to the GoI for the adequate availability of urea and the government's track record in providing support to NFL for its capex programme, ICRA expects the GoI to provide support for the energy-saving capex to mitigate material impact on the company's credit profile.

Moderate financial risk profile with nearly entire debt comprising working capital borrowings - NFL's financial risk profile is characterised by increased gearing levels owing to high working capital borrowings, as term loans related to the feedstock conversion project have been repaid. Nonetheless, the working capital debt is backed by the subsidy receivables from the GoI.

Liquidity position: Adequate

The liquidity position of the company remains adequate given the availability of large working capital borrowing limits and availability of adequate drawing power coupled with large sovereign ownership which yields significant financial flexibility. The capex will be majorly funded through long term debt which the company has already tied up and has started drawing as well. The liquidity of the company is also supported by the willingness of the banks to fund the sovereign receivables up to 240 days.

Rating sensitivities

Positive - Material improvement in the profitability of the company resulting in the improvement in Total Debt/OPBDITA and cash accruals

Negative triggers **-** a) Energy savings from the ongoing projects not as per expected levels, putting further pressure on profits b) Further elongation of the working capital cycle due to the delay in the subsidy receipts from the GoI resulting in further increase in the working capital borrowings will put downward pressure on the ratings. c) Any weakening in the linkages between GoI and NFL

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector
Parent/Group Support	The ratings factor in the implicit support from the parent i.e. Government of India
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Incorporated in 1974, National Fertilizers Limited (NFL) is a public sector, Mini Ratna undertaking, primarily involved in the manufacture of urea. The company's operations are spread across five units, one each in Nangal and Bhatinda (Punjab), Panipat (Haryana) and two units at Vijaipur (MP). NFL commenced operations by setting up two FO/LSHS based urea units at Bathinda (Punjab) and Panipat (Haryana) in 1979. Subsequently, as part of the reorganisation of public sector fertiliser companies, the Nangal (Punjab) unit of Fertilizer Corporation of India (FCI) came under the NFL fold. The company set up another urea plant at Vijaipur (Vijaipur-I), Madhya Pradesh in 1988 when the Hazira-Vijaipur-Jagdishpur (HVJ) gas transmission pipeline was set up. NFL undertook brownfield expansion of the Vijaipur plant (Vijaipur-II) in 1997. The Vijaipur units are gas-based, with the Vijaipur-II plant having dual feedstock ability (naphtha and gas). The other three units earlier used Furnace oil (FO) as feedstock, though they have now been converted to gas as mandated by the GoI.

NFL has a combined urea production capacity of 3.57 MMTPA as on date (increased from 3.21 MMTPA prior to FY2013), making it the second largest producer of urea in the country. The GoI divested 7.64% holdings in NFL bringing down its stake to 90% in July 2013 to meet the norms laid down by the Securities and Exchange Board of India SEBI for public sector undertakings. GoI further reduced its stake by 15% in August 2017 through an Offer for Sale (OFS).

While ~85% of the company's revenues come from urea, it manufactures / trades in other products such as bio-fertilisers, trading and bulk industrial products such as Nitric Acid, Ammonium nitrate, Sodium Nitrate / Nitrite, Anhydrous Ammonia, etc. The traded products include city compost, certified seeds, agrochemicals and other chemical fertilisers like Muriate of Potash (MOP), DAP, etc.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	8,925.6	12,219.1
PAT (Rs. crore)	212.8	298.4
OPBDIT/OI (%)	5.8%	6.6%
RoCE (%)	9.6%	11.6%
Total Outside Liabilities/Tangible Net Worth (times)	3.8	5.3
Total Debt/OPBDIT (times)	5.9	8.1
Interest Coverage (times)	2.7	2.5
DSCR	0.2	0.5

Source: ICRA estimates; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg. (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital, DSCR= (Net Profit After Tax + Gross Interest + Depreciation) / (Gross Interest + Repayment + Dividend on Preference Shares)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)						Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier rating		FY2019			FY2018	FY2017	
					27-March-2020	14-Aug-2019	26-Jun-2019	14-Feb-2019	02-Nov-2018	06-Apr-2018	04-Sep-2017	14-Sep-2016	04-Jul-2016
1	Term loan	Long term	1167.75		[ICRA]AA- (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Long term fund based limits	Long Term	5000.00	-	[ICRA]AA- (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Short term- Non-fund based limits	Short Term	3000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper^	Short Term	7000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Short term- Unallocated limits	Short Term	10.25	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. Crore; ^Commercial paper program and Long-term CC limits are interchangeable with total borrowing capped at lower of the drawing power or the sanctioned fund-based limits

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 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
-	Term Loan-1	January 2016	-	September 2020	123.75	[ICRA]AA-(Stable)
-	Term Loan-2	July 2018	-	March 2030	1044.00	[ICRA]AA-(Stable)
-	Fund Based-Long Term facilities	-	-	-	5,000.00	[ICRA]AA-(Stable)
-	Non-Fund Based-Short Term facilities	-	-	-	3,000.00	[ICRA]A1+
-	Commercial Paper	-	-	7-365 days	7,000.00	[ICRA]A1+
-	Unallocated-Short Term	-	-	-	10.25	[ICRA]A1+

Source: NFL

Annexure-2: List of entities considered for consolidated analysis

NA

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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.

For more information, visit www.icra.in

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