Mangalore Chemicals
& Fertilizers Limited

MCFL/SE/2024

February 16, 2024

The Asst. Vice President,
National Stock Exchange of
India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), MUMBAI - 400 051

Department of Corporate Services - CRD
BSE Limited,
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street
MUMBAI - 400 001

Dear Sir/Madam,

Company's Scrip Code in BSE	: 530011 MANGCHEM
Company's Symbol in NSE	: MANGCHEFER
ISIN	: INE558B01017

Sub: Intimation of Revision in Credit Rating

Pursuant to the provisions of Regulation 30 and Sub Para 3 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please note that, CARE has revised the rating of Long Term Bank Facilities to CARE A-; (RWD) [read as Single A Minus; Outlook: Rating Watch with Developing Implications] from CARE A-; Stable (read as Single A Minus; Outlook: Stable) and of Long Term / Short Term Bank Facilities to CARE A- / CARE A2+; (RWD) [read as Single A Minus / A Two Plus; Outlook: Rating Watch with Developing Implications] from CARE A-; Stable / CARE A2+ (read as Single A Minus; Outlook: Stable / A Two Plus).

The rationale given by CARE is included in the attached press release dated February 15, 2024 by CARE.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Mangalore Chemicals & Fertilizers Limited

VIGHNESHWAR GOPALAKRISHNA BHAT

Digitally signed by VIGHNESHWAR GOPALAKRISHNA BHAT
Date: 2024.02.16 17:49:32 +05'30'

Vighneshwar G Bhat
Company Secretary

Encl: As above

Mangalore Chemicals And Fertilisers Limited

February 15, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	411.96	CARE A- (RWD)	Placed on Rating Watch with Developing Implications
Long-term / Short-term bank facilities	2,588.04	CARE A- / CARE A2+ (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) places the ratings assigned to the bank facilities of Mangalore Chemicals and Fertilisers Limited (MCFL) on rating watch with developing implications following the announcement of the merger of the company with the group entity Paradeep Phosphates Limited (PPL) through a share swap deal.

The merger is expected to bring in operational synergies as both the entities are managed by the common promoters' group and are engaged in manufacturing of similar products. PPL has an installed capacity of 3 million tons per annum (2.60 million tons for phosphates and remaining for urea) while MCFL has the capacity of 3.80 lakh tons of urea and 2.85 lakh tons for di-ammonium phosphate (DAP) and Complex leading to the aggregate capacity of 3.66 million tons, which will make the merged entity, one of the leading players in the fertilizer segment and also help consolidation of business to achieve rationalization of overheads, better geographical coverage and lesser compliances. CARE Ratings will closely monitor the developments of the merger and will review the ratings once greater clarity emerges with respect to the exact implications of the merger on the financial, operational and managerial risk profile of the merged entity.

Reaffirmation in the ratings assigned to the bank facilities of MCFL derives strength from MCFL's long track record of operations in the fertilizers industry, benefits exuding from being a part of the reputed and diversified Adventz group and the company's established presence in South-Indian region with widespread customer base. Ratings also consider in the faster release of subsidy by the government in last couple of years leading to reduction in the outstanding subsidy receivables of the company and thereby reducing its reliance on the working capital borrowings.

Ratings continue to factor in the improving operating efficiency of the company on the back of implementation of energy improvement program (EIP) resulting into increased energy gain, aiding to the profitability and cash accruals in FY23 and further during 9MFY24 (refers to period April 01 to December 31), though also takes cognizance of the moderation in income and profitability reported on quarterly basis in Q3FY24 (refers to period October 01 to December 31) owing to subdued demand and prices resulting into reduced sales volumes. CARE Ratings expects Q4FY24 to be slightly subdued owing to decline in sales volumes led by lower demand, however, no significant impact is envisaged on the overall financial risk and liquidity profile of the company in near term.

These rating strengths, however, remain constrained with leveraged but improving capital structure of MCFL, presence in the highly regulated fertilizers industry with high dependence on subsidy and exposure towards agro-climatic conditions impacting rainfall and sowing practices and volatility in raw material prices. CARE Ratings expects improvement in overall business and financial risk profile of the company going forward on the basis of increasing energy gains, absolute operating profitability, cash accruals and ability of the company to efficiently manage its working capital requirements basis timely receipt of subsidies accrued.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving liquidity position along with lower working capital borrowings leading to sustained improvement in credit metrics with net debt to profit before interest, lease rentals, depreciation and tax (PBILDT) below 1.10 times.
- Substantial positive impact of any regulatory/policy change on the company's operational risk profile.

Negative factors

- Increase in the collection period leading to elongation in the operating cycle of more than 180 days on a sustained basis.
- Major debt-funded capital expenditure (capex) or increase in working capital borrowings to fund large subsidy receivables leading to Net debt to PBILDT deteriorating above 3.5x on sustained basis.
- Adverse changes in the regulations governing the fertiliser industry adversely impacting the operational risk profile of the company.
- Significant adverse impact on the financial and operational risk profile of the company owing to ongoing merger process.

Analytical approach: Standalone

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

Detailed description of the key rating drivers:

Key strengths

Part of diversified group with long track record of operations

MCFL commenced production of ammonia and urea in 1976, set up ammonium bicarbonate plant in 1982, di-ammonium phosphate and captive power plants in 1986, sulphonated naphthalene formaldehyde plant in 2010 and speciality fertilisers plant in 2011. MCFL is a part of the Adventz group which has interests in agri-inputs, engineering, infrastructure, real estate, consumer durables and services sectors. MCFL was earlier a UB group company, however, in May 2015, the Zuari group acquired an additional 36.56% stake in MCFL over and above its earlier 16.47% stake to become the majority stakeholder in the company with 54.03% stake at present.

As part of the Adventz group, MCFL is benefitting from centralized procurement of key raw materials at the group level leading to the benefit of economies of scale, a strong marketing and distribution network, resulting in better cost efficiencies, besides the savings in fixed overheads as a result of integrated operations with the other group companies which are in similar line of business. The parent company of MCFL, Zuari Agro Chemicals Limited (ZACL), is the flagship company of the group and also acts as a holding company for the other group companies engaged in manufacturing of fertilizers while the non-fertilizers business is under another the holding company, Zuari Global Limited (ZGL). ZACL had raised funds in past by monetization of its assets (the Goa plant) to its group company Paradeep Phosphate Limited. The sale of these assets and the resultant fund-raising helped ZACL to deleverage its balance sheet. However, MCFL is not dependent for financial support from its promoters as seen in the past since its acquisition and is an independent operating company and is only being benefitting by leveraging the group operational and business linkages with better reach to market.

Established position in Southern India and wide customer base

MCFL is engaged in manufacturing of nitrogenous and phosphatic fertilizers and is the leading manufacturer of fertilizers in the state of Karnataka. About 70% of the company's products are sold in the state of Karnataka, which meets about 10-11% of the needs of the farmers of the state. MCFL also maintains good market share in Kerala and a modest share in states of Tamil Nadu, Andhra Pradesh, Telangana and Maharashtra. MCFL also has a wide customer base and the top 10 customers continue to account for less than 10% of the total operating income (TOI) (FY22: 7% of total TOI).

Growing revenue and profitability in FY23 and 9MFY24 with improving operating efficiency post EIP implementation

After successful testing and commissioning, urea manufacturing with the feedstock of natural gas (NG) had started since December 12, 2020 and FY22 was the first full year when MCFL operated on natural gas (NG). MCFL has completed its EIP much in advance and its current energy consumption stands at 5.88 GCal/MT for FY23 from earlier consumption of 6.30Gcal/MT. This leads to incremental accrual benefits on account of energy savings which has also increased from 1.02Gcal/MT in FY22 to 1.48 Gcal/MT in FY23 and is expected to increase to 1.86 over next one year. MCFL has produced 1,00,000 MT less urea than its assessed capacity in FY23 due to loss of production during the interim period when plant was shutdown for almost 1.5 months in Q2FY23 for implementation of EIP. Despite the lower production, MCFL has achieved higher operating profit in FY23 owing to reduced energy consumption on account of EIP. In FY23, MCFL reported growth of 25.76% in TOI to ₹3,641.52 crore over FY22 with PBILDT margin of 8.64% (PY: 7.45%) on account of increased energy gains from 1.02 Gcal/MT to 1.48 Gcal/MT in FY23.

MCFL has achieved revenue of 3,037.48 crore in 9MFY24 with PBILDT margin of 12.12%, however Q4FY24 is expected to remain slightly subdued on account of lower sales volume and reduced raw material and finished products prices.

Key weaknesses

Leveraged albeit improving capital structure

Capital structure of MCFL remains leveraged mainly on account of higher working capital requirements, however improvement demonstrated on the back of improving profitability and timely receipt of subsidy. The overall gearing of the company remained on a higher side albeit improved from 2.53x as on March 31, 2022 to 1.92x as on March 31, 2023 on account of increased net worth base from ₹681.99 crore as on March 31, 2022 to ₹802.12 crore owing to higher profits during the year and lower working capital utilization as the subsidies were received in a timely manner and the additional subsidy payout of ₹110,000 crore in May 2022 by the government, which also acted as a liquidity flush for the fertilizer companies. Accordingly, the debt coverage indicators including total debt (TD)/PBILDT and TD/gross cash accrual (GCA) also improved from 7.99 times and 10.67 times as on March 31, 2022 to 4.90 times and 7.53 times respectively as on March 31, 2023. MCFL also has accumulated Goods and Services Tax (GST) receivable amounting to ₹114 crore reported as on March 31, 2023, which remains imperative to provide additional liquidity support to the company in near term.

Going forward, financial risk profile of the company is expected to improve on the basis of improving production efficiency leading to increased absolute profitability and strengthening of the net worth position.

Vulnerability of sales to agro-climatic conditions

Financial health of fertilizers manufacturers largely depends on the sowing season, vagaries of rainfall, status of subsidy outgo and the existing channel inventory level. Large portion of the farming land in India is dependent on the vagaries of the monsoon in the absence of adequate irrigation facilities. Rainfall deficiency or drought can adversely impact sowing level of various crops and in turn the sale of fertilizers. MCFL supplies only in India and caters to six states including Karnataka and around 70% of the company's products are sold in the state of Karnataka only, followed by Tamil Nadu (11%), Andhra Pradesh (7%) and others including Telangana & Maharashtra.

Exposure towards fluctuations in raw material prices
MCFL procures the key raw materials including Regassified Liquefied Natural Gas (RLNG), phosphoric acid and ammonia which are imported for manufacturing of complex fertilizers. NG supply is secured through mid / long-term contracts. The company also deals in imported fertilizers (DAP and Muriate of Potash [MOP] besides other fertilizers).
From December 2020 the company is using NG as raw material for production of urea and also as input for generating power from the Captive Power Plant which is supplied by Gail (India) Limited. Earlier Naptha and Furnace oil was used as feed and fuel which was supplied by Indian Oil Corporation Limited. The raw materials and the traded goods derive their prices from the global crude price while international prices of DAP and MOP are based on the demand and supply, therefore the turnover of the company fluctuates based on the global crude and commodity prices and are also vulnerable to exchange rate movement.

Exposure towards highly regulated industry
The profitability and liquidity of fertiliser manufacturers is significantly influenced by the regulations governing various types of fertilisers, wherein, the government controls the fertiliser prices and provides subsidies. 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 including energy consumption norms.
Fertiliser companies are also susceptible to delays in subsidy payments from the government, leading to high reliance on working capital loans. Any deferment in the disbursement of subsidy on account of under-budgeting and any change in the regulatory scenario remains key rating sensitivity. The government allocated a subsidy of ₹1.75 lakh crore for the year 2023-24. While the amount is sharply lower than the previous year, the government assured that farmers will remain protected since international fertilizer prices have fallen, which reduces the need for hefty support. The cabinet also approved fresh rates under the nutrient-based subsidy (NBS) scheme for nitrogen, phosphorus, potassium (NPK) fertilizers. The NBS scheme sets fixed subsidies for fertilizers other than urea, depending on their nutritional content. This is expected to keep the working capital position steady and not let any material built-up in the subsidy receivables in fiscal 2024 as it bears a direct correlation with the level of working capital utilization. However, ability of the company to effectively manage its operations in case of declining prices and reduced subsidy would remain a key rating monitorable.

Liquidity: Adequate
Liquidity is marked by buffer between expected cash accruals of above ₹200-250 crore in FY24 against scheduled repayment obligations of ₹93.07 crore and further aided through free cash and cash equivalents of ₹634 crore as on October 31, 2023 providing cushion to meet its incremental working capital needs over the near term. The operations of the company remain working capital intensive majorly owing to the longer receivables cycle on account of subsidy receivables from the government. However, average receivables days of the company moderated to 73 days for FY22 due to timely receipt of subsidy during FY21 and FY22. Normally, suppliers are extending 30 days to 60 days credit against LCs. After that, LCs are paid by converting into Buyers Credit/Suppliers credit/ LC Bill Discounting and this will be repaid within 120 days to 180 days.
Going forward, MCFL is planning to undertake a backward integration plant for sulphuric acid, increasing the capacity by 300 TPD from 100 TPD currently at a total outlay of ₹240 crore to be funded through debt of ₹160 crore (sanctioned by Axis Bank- ₹75 crore and IndusInd Bank- ₹85 crore @ 8.75% p.a. and repayable in five years post two years' moratorium) and remaining through internal accruals and is expected to start from May 2025. Thus, any higher-than-envisaged debt-funded capex which may significantly impact the credit profile or leverage indicators of MCFL shall remain negative from credit perspective.

Environment, social, and governance (ESG) risks: Fertiliser manufacturing, particularly urea, has a significant carbon footprint as NG is the key raw material for hydrogen which goes into ammonia production and thereafter urea. The government of India (GoI) is expected to provide adequate policy support to the sector if the hydrogen requirement through the green route is mandated by GoI for the sector. Agro-climatic risk remains a key risk for the sector given the fact that a significant portion of the Indian agriculture sector remains dependent on the monsoons and with changing climate patterns which may impact fertiliser offtake. The sector is also socially important, given its role in ensuring food security and rising concerns related to excessive usage of fertilisers and its impact. MCFL has been undertaking its part on ESG front as follows:
Environment
- As an ISO 14001 certified company, many environmental management programs have been implemented to improve the environmental performance of the company. The company has changed its feedstock and fuel from naptha to cleaner NG which has significantly reduced sulphur dioxide emissions. MCFL has achieved zero liquid discharge status in 2010 by upgrading its effluent and sewage treatment plants to recover and reuse the treated waters. The rainwater harvesting system and sewage treatment plants are already installed.
- Fixed NG leak detectors have been installed in areas of recently converted (fule oil to NG) burners of package boiler and dryer combustion chamber in the DAP Plant and Standby auxiliary Boiler (IJT) in Ammonia Plant for early detection and alarm in case of any gas leaks.

Social
- MCFL continues to make significant contributions in the area of education, rural development, healthcare, sanitation, employability and empowerment, animal welfare and soil health among others, for the underprivilege community living in the villages located near its plant in Mangalore besides its marketing territories.

Governance

- The company ensures compliance with the best corporate governance practices as laid down by the SEBI (LODR) Regulations, 2015. The Board of Directors of MCFL comprises an optimum combination of Executive (2), Non- Executive (3) and Independent Directors (4).

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Fertilizer
Manufacturing Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Fertilizers & Agrochemicals	Fertilizers

MCFL incorporated in year 1966 is one of the leading manufacturers of chemical fertilizers through its manufacturing facility located at Mangalore west coast opposite Mangalore Port with installed capacity of Urea - 3.80 lakh metric tonne (LMT), DAP & Complex 2.85 LMT and around 70% of the company's products are sold in the state of Karnataka. MCFL is a part of the Adventz group with majority stake held by ZACL, 54.03% holding). The Adventz group was founded by late K.K Birla and presently led by Saroj Kumar Poddar. MCFL was earlier a UB group company, however, in May 2015; the Zuari group acquired an additional 36.56% stake in MCFL over and above its earlier 16.47% stake to become the majority stakeholder in the company.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	2,895.58	3,641.52	3,037.48
PBILDT	215.84	314.65	368.07
PAT	87.86	134.66	149.97
Overall gearing (times)	2.53	1.92	Not Available
Interest coverage (times)	4.43	3.02	4.51

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	August 2030	411.96	CARE A- (RWD)
Fund-based/Non-fund-based-LT/ST		-	-	-	2588.04	CARE A- / CARE A2+ (RWD)

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	411.96	CARE A-(RWD)	1)CARE A-; Stable (08-Jan-24)	1)CARE A-; Stable (21-Mar-23)	1)CARE BBB+; Stable (23-Dec-21)	1)CARE BBB+; Stable (25-Mar-21) 2)CARE BBB; Stable (08-Oct-20)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	2588.04	CARE A- / CARE A2+ (RWD)	1)CARE A-; Stable / CARE A2+ (08-Jan-24)	1)CARE A-; Stable / CARE A2+ (21-Mar-23)	1)CARE BBB+; Stable / CARE A3+ (23-Dec-21)	1)CARE BBB+; Stable / CARE A3+ (25-Mar-21) 2)CARE BBB; Stable / CARE A3 (08-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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