नेशनल फर्टिलाइज़र्स लिमिटेड
(भारत सरकार का उपक्रम)
कॉरपोरेट कार्यालय : ए-11, सैक्टर-24, नोएडा - 201301
जिला गौतम बुद्ध नगर (उ.प्र.),
दूरभाष : 0120 2012294, 2412445, फैक्स : 0120-2412397

एन एफ एल
N F L

NATIONAL FERTILIZERS LIMITED
(A Govt. Of India Undertaking)

Corportate 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/177 **Dated: 09.04.2021**

Asstt. Vice President (Listing), National Stock Exchange Limited, Registered Office (Exchange Plaza), C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai – 400051	**Dy. General Manager (Corp. Relations), BSE Limited, Floor 25th, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001.**
NSE Symbol: NFL	**BSE Script Code: 523630**

Sub: Intimation of Review of Credit Rating.

Dear Sir,

Pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015, we hereby inform that ICRA Limited has assigned the following ratings to the Company:

Instrument Type	Rating Limit	Rating Action
	(in crore)	
Long Term-Fund Based Limits	INR 4000.0	[ICRA]AA-(Stable); reaffirmed
Term Loans	INR 1,044.0	[ICRA]AA-(Stable); reaffirmed
Short Term-Non-Fund Based Facilities	INR 3000.0	[ICRA]A1+; reaffirmed
Commercial Paper^	INR 4000.0	[ICRA]A1+; reaffirmed

^ *Instrument details are provided in Annexure-1; the commercial paper program is carved out of the fund-based limits of the company*

Copy of credit rating received from ICRA Limited is enclosed herewith for your information and record.

Thanking You,

Yours Faithfully,
For National Fertilizers Limited

09/04/2021

(Ashok Jha)
Company Secretary

Encl: As Above

April 06, 2021

National Fertilizers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based Limits	5,000.0	4000.0	[ICRA]AA-(Stable); reaffirmed
Term Loans	1,167.5	1,044.0	[ICRA]AA-(Stable); reaffirmed
Short Term-Non-Fund Based Facilities	3,000.0	3000.0	[ICRA]A1+; reaffirmed
Commercial Paper^	7,000.0	4000.0	[ICRA]A1+; reaffirmed
Short Term-Unallocated	10.25	0.0	-
Total			

**Instrument details are provided in Annexure-1; the commercial paper program is carved out of the fund-based limits of the company*

Rationale

The assigned ratings for the credit lines of National Fertilizers Limited (NFL) factor in the leadership position in the fertiliser industry, expected improvement in the credit profile of the company with the likely hood of significant decline in working capital debt post the receipt of additional subsidy from GoI under Atma Nirbhar 3.0 package. The ratings also factor in the low demand risk for urea, healthy contribution from the sale of traded and industrial products, exceptional financial flexibility arising out of strategic importance to Government of India (GoI) and the large sovereign ownership. The credit profile of the company is expected improve from end of FY2021 as GoI has released the additional subsidy allocation in FY2021 leading to the removal of the subsidy backlog. Further, with subsidy receipt from GoI to be timely going forward, the working capital requirements are likely to witness considerable reduction. As a result, the capitalisation and coverage indicators will witness substantial improvement at the end of FY2021 and onwards. As per ICRA's expectation, the gross financial leverage (Gross Debt/OPBDITA) will remain around 3.5x to 5x over the next three years. NFL is one of the largest urea suppliers in India with second largest urea capacity in the country and market share of 14% (including traded urea) in 9M FY2021. The market share is slated to grow further from FY2022 onwards as company will market around 1.27 MMTPA of urea produced by Ramagundam Fertilisers & Chemicals Limited (RFCL), wherein NFL is a Joint-Venture (JV) partner. RFCL's plant is expected to be commissioned in April 2021 and NFL will receive a fixed marketing fee from RFCL for marketing of urea. NFL's main product i.e. urea faces low demand risk given the significant import dependence to meet the domestic demand. Despite planned capacity additions to the tune of ~6.4 MMTPA over the next 15 months, the import dependence for urea will remain significant leading to low demand risk for domestic urea manufacturers. The exceptional financial flexibility displayed by NFL in raising funds from the capital markets at short notice and highly competitive rates emanates from the large sovereign ownership and strategic importance for the GoI in ensuring the adequate fertiliser supply in the agriculturally important Northern belt of India.

The ratings however are constrained by the vulnerability of profitability to agro-climatic and regulatory risks and large energy savings capex being undertaken which will remain non-remunerative in the absence of the support from the GoI. The tightening of the energy norms from October 2020 for NFL will lead to around Rs. 200 crore impact on its operating profits. While NFL has been able to ramp up its trading portfolio which will partially offset the impact of the decline in the urea profitability, the reduction in the interest costs due to lowering of the working capital borrowings is expected to offset the impact of the tightening of the energy norms. 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 to recoup the investment made in the energy savings scheme at these units. 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 energy saving projects have also witnessed delays due to the Covid-19 pandemic led slowdown. The reliability run tests for Bhatinda and Nangal units were completed by end of March 2021 while for Panipat units will be completed by the end of April 2021. The major energy saving scheme for Vijaipur-1 has been completed in October 2020 while the energy savings scheme for Vijaipur-2 will be completed by June 2021. The balance energy schemes for Vijaipur-1 will be implemented by September 2021 which will lead to further improvement in energy savings.

ICRA also takes note of the Rs. 338.9 crore provision made by NFL in the FY2020 results owing to the removal of the floor of Rs. 2300/MT under Modified New Pricing Scheme-III (Modified NPS-III). The provision was majorly driven by the revision of the fixed cost for Vijaipur-I plant from Rs. 2300/MT to Rs. 1635/MT for its entire production since April 2014. Additionally, the revision of the fixed contribution on the production beyond the Re-Assessed Capacity (RAC) since April 2014 for other four plants from Rs. 2300/MT to Rs. 1635/MT also were part of the provision. On the request of the company and few other industry players which have been similarly impacted, Department of Fertilizer (DoF) has constituted a committee to evaluate the floor on the fixed cost for urea plants in India. The committee is yet to give out its recommendation and the committee recommendation if favorable will aid NFL's profitability going forward. The development will remain a key monitorable. ICRA also takes note of the GoI's intent to offload 20% stake in NFL through an Offer for Sale (OFS) which will being down the sovereign ownership to 54.71%. While the GoI will continue to hold, majority stake in the company, any change in the philosophy for support to NFL and reduction of the ownership below 50% will remain a key monitorable.

NFL has also been nominated as a JV partner for setting up a 1.27 MMTPA urea unit in Assam at the facility of Brahmaputra Valley Fertiliser Corporation Limited (BVFCL) with an equity contribution of 28%. Currently, NFL is contracting Project Development India Limited (PDIL) for preparation for the techno-Economic Feasibility Report (TEFR) and the timelines for start of the project and the capital outlay are yet to be finalised. ICRA will assess the impact of the investment in the JV on the credit profile of the company as and when the details are finalized.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its leadership position in the fertiliser sector and its strategic importance to GoI.

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. GoI has also received support from GoI in the past and ICRA expects GoI to provide support to NFL going forward as well as and when needed. GoI will be offloading 20% stake in NFL through an OFS, although currently no timelines have been specified for the same.

Favourable demand-supply scenario of urea in India - Nearly 27% of urea was imported in FY2020 owing to the demand-supply gap in India. Urea sales have witnessed significant growth in FY2021 of ~10% and with domestic capacity remaining inadequate to meet the surge in demand, the imported urea share has remained around 27% in 9M FY2021. 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. Going forward, the company plans to setup an agrochemical plant and revive second stream of nitric acid at one of its facilities to map up the share of these products which should aid profitability. The company successfully ramped up its trading portfolio of imported fertilisers and other traded goods in FY2020 which aided profitability. In 9M FY2021, the company witnessed a rise in the profitability from the segment driven by higher contribution margin on the sale of imported Di-Ammonium Phosphate (DAP) although the sales volume have moderated as the Covid-19 led restrictions led to lower imports of DAP by the company. 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. The energy consumption after moderating in FY2020 due to major shutdowns in H1 FY2020 has witnessed improvement in 9M FY2021. However, with the tightening of the norms the overall energy savings have moderated. Going forward, once the energy savings capex will be completed, the energy consumption for the urea plants will further moderate and will keep the production competitive against imported urea.

Credit challenges

Vulnerability of profitability of the fertiliser sector to regulatory policies and agro-climatic conditions- 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 the timeliness of subsidy release by the GoI- In the past fertiliser companies have witnessed significant cash-flow mismatches owing to the delay in the release of the subsidy by the GoI due to inadequate subsidy budgeting. In FY2021, GoI made additional allocation towards meeting fertiliser subsidy outgo leading to the clearance of the subsidy backlog, resulting in the lowering of receivable days and lower working capital borrowings. Going forward the timeliness of the subsidy receipt from the GoI will remain a key monitorable.

Large energy savings capex to be incurred to meet the energy norms from FY2021 onwards which may be non-remunerative in absence of support from GoI: NFL is in the midst of a Rs. 1044.0 crore energy savings capex plan being implemented across its four plant complexes. The capital expenditure will enable NFL's plants to meet the revised norms under NUP-2015 and ensure continuity of operations. Although the profitability earned from the energy savings will moderate post the implementation of the Energy Saving Schemes (ESS) due to lower differential between energy consumption and normative norms. 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.

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 ongoing capex will be majorly funded through long term debt which the company has already tied up and has started drawing as well. Additionally, with the release of the additional subsidy, the liquidity position of the company will improve substantially driven by timely release of subsidy and lower interest outgo.

Rating sensitivities

Positive factors - The rating may be upgraded in a scenario of favorable outcome on the extension of the energy consumption norms for Nangal, Bhatinda and Panipat units. Favorable outcome for the reinstatement of the floor of Rs. 2300/MT of the fixed cost will also be a positive for the entity's rating. Sustained improvement in the credit profile of the company driven by healthy profitability and lower working capital borrowings will be a key positive for the rating.

Negative factors- Deterioration in the working capital cycle leading to receivable days of more than 180 days on a sustained basis may lead to a rating downgrade. Any deterioration in debt metrics owing to any large debt funded capex/investments or weak profitability will also put negative pressure on the ratings of the company. Additionally, reduction in GoI stake below 51%, weakening of the linkages with GoI and/or change in the support philosophy of GoI could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	**Parent: Government of India** The ratings factor in the parentage from GoI and strategic importance of NFL for GoI given the company is a major fertiliser supplier in the country and ensures lower reliance on imported urea.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of NFL.

About the company

Incorporated in 1974, National Fertilizers Limited (NFL) is a public sector, Mini Ratna undertaking, primarily engaged in the manufacture of urea. The company's operations are spread across five units, one each in Nangal and Bhatinda (Punjab), and 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. These three plants subsequently shifted to natural gas based ammonia production. 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).

NFL has a combined urea production capacity of 3.57 MMTPA as on date, making it the second largest producer of urea in the country. The GoI currently holds 74.71% stake in the company. GoI is looking to divest 20% stake in NFL and through Department of Investment and Public asset management (DIPAM) has invited proposals from legal advisors, merchant bankers and brokers. GoI will be selling 20% stake in the company through an Offer for Sale.

Key financial indicators (audited, 9M FY2021 numbers are un-audited)

NFL Standalone	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	12,418.9	13,130.7	8,944.5
PAT (Rs. crore)	298.4	-171.0	252.7
OPBDIT/OI (%)	8.2%	6.6%	8.9%
PAT/OI (%)	2.4%	-1.3%	2.8%
Total Outside Liabilities/Tangible Net Worth (times)	5.3	6.6	
Total Debt/OPBDIT (times)	6.4	9.3	
Interest Coverage (times)	3.2	2.1	3.4

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: NFL, ICRA research; *Un-audited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020			Date & Rating in FY2019				Date & Rating in FY2018
					Apr 06, 2021	Mar 27, 2020	Aug 14, 2019	Jun 26, 2019	Feb 14, 2019	Nov 02, 2018	Apr 06, 2018		Sep 04, 2017
1	Long Term-fund based Limit	Long Term	4,000.0	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)		[ICRA]AA (Stable)
2	Term Loans	Long term	1,044.0	718.1	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)		[ICRA]AA (Stable)
3	Short Term-Non Fund Based	Short Term	3,000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+
4	Commercial Paper	Short Term	4000.0	6250.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+
5	Short term-Un-allocated	Short Term	0.00	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+

Amount in Rs. crore; Note: The commercial paper program is carved out of the fund-based limits of the company

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
-	Long Term-fund Based	-	-	-	4,000.00	[ICRA]AA- (Stable)
-	Term Loans	Jul-18	-	Mar-30	1,044.00	[ICRA]AA- (Stable)
-	Short Term-Non-fund Based	-	-	-	3,000.00	[ICRA]A1+
INE870D14DP7	Commercial Paper ^	-	-	-	4000.00	[ICRA]A1+

Source: NFL; Note: *The commercial paper program is carved out of the fund-based limits of the company*

Annexure-2: List of entities considered for consolidated analysis: NA

Company Name	NFLL's ownership	Consolidation Approach
NA	NA	Na

Source: *GAIL*

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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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