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
NFL

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

No.NFL/SEC/SE/1366 **Date: 19.08.2019**

Dy. General Manager (Corp. Relations) Bombay Stock Exchange Limited, Floor 25, Phiroze-jeejeebhoy Towers, Dalal Street, Mumbai – 400001.	**Asstt. Vice President (Listing), National Stock Exchange of India Limited, Registered Office (Exchange Plaza), C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai - 400051**

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 rating e-mail dated August 19, 2019, 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 **reaffirmed**; Outlook revised to Negative from Stable
Term Loans	1,167.75	[ICRA] AA **reaffirmed**; Outlook revised to Negative from Stable
Short Term – Non fund based facilities	3,000.00	[ICRA] A1+ ;**reaffirmed**
Short Term Un-allocated limits	10.25	[ICRA] A1+; **reaffirmed**
Commercial Paper*	6,000.00	[ICRA] A1+; **reaffirmed**
Total	**10,178**	

*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.

Kindly take the above information on your records.

Thanking you,

Yours faithfully,
For National Fertilizers Limited,

R. Kumar

(Raj Kumar)
Company Secretary

National Fertilizers Limited

August 9, 2019

National Fertilizers Limited: Ratings reaffirmed; Outlook on the long-term rating revised to Negative from Stable

Summary of Rated Instrument:

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 reaffirmed; Outlook revised to Negative from Stable
Term Loans	1167.75	1167.75	[ICRA]AA reaffirmed; Outlook revised to Negative from Stable
Short-Term - Non-fund-based facilities	3,000.00	3,000.00	[ICRA]A1+; reaffirmed
Commercial Paper^	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Short-term un-allocated limits	10.25	10.25	[ICRA]A1+; reaffirmed
Total	**10,178.00**	**10,178.00**	

**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

Material Event

National Fertilizers Limited (NFL) announced its quarterly results on August 2, 2019. The company reported a net loss of Rs. 64 crore in Q1 FY2020 against a profit of Rs. 41.2 crore in Q1 FY2019. The significant loss was a result of an unplanned shutdown at its Vijaipur complex leading to loss of production in the urea plants and significant increase in the interest costs driven by an increase in the borrowing levels during the quarter owing to delay in subsidy receipts from the GoI.

Impact of the Material Event

The ratings remain unchanged for NFL while the outlook on the long-term rating has been revised to Negative from Stable.

Rationale

The revision in outlook to 'Negative' factors in the moderation in the credit metrics owing to the significant increase in the working capital debt of the company driven by the delay in the subsidy receipts from the GoI. The leverage of the company increased to 8.1x at the end of FY2019 as against 5.9x at the end of FY2018 along with an increase in the gearing to 2.9x at the end of FY2019 vis-à-vis 1.5x at the end of FY2018. The borrowing levels continued to remain elevated in Q1 FY2020 as well owing to the slower subsidy disbursement by the GoI and an increase in the trading operations of the company. ICRA also takes note of the net loss posted by the company in Q1 FY2020 owing to an unplanned shutdown at its Vijaipur complex in Q1 FY2020. With a loss of production of around 1.2 lakh MT of urea in Q1 FY2020 coupled with the deterioration of the energy consumption during Q1 FY2020 resulted in significant decline in the operating profits. Apart from high subsidy receivables from the urea operations and sharp rise in the trading operations, continued delay in subsidy disbursement by the GoI also led to elevated borrowing levels, resulting in significant increase in the interest costs, thus impacting the profit of the company during Q1 FY2020. The ratings could be under pressure in the event that the subsidy receivables and debt levels remain elevated for a longer period that would in turn result in high interest costs and moderation of debt coverage metrics for the company. The ratings continue to factor in the NFL's established position as the second largest urea manufacturer in India with a share of over 16% of the total domestic capacity and 13% market share. The ratings also consider the stable cash accruals from urea operations, increasing share of revenue from traded goods as well as the large sovereign ownership resulting in a strong financial flexibility (as reflected by the company's proven ability to raise funds at competitive rates). Besides, almost the entire debt of the company is backed by receivables from the Government of India (GoI), which leads to low risks from a credit perspective.

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 post the feedstock conversion programme undertaken in FY2013, with healthy capacity utilisation levels and energy efficiency vis-à-vis the pre-set norms. While gas pooling has rationalised gas prices, the New Urea Policy 2015 (NUP-2015) incentivised production beyond the reassessed capacity, thereby aiding the company's margins. Further increase in the gas costs results in higher energy savings aiding operating profit for the company. The company has also scaled up its portfolio of traded fertilizer (mainly diammonium phosphate (DAP), Muriate of Potash (MOP), NPK, bentonite sulphur), along with industrial products like nitric acid, ammonium nitrate, sodium nitrate, sodium nitrite etc. to diversify its revenue streams. Further the company has also been appointed by GoI for handling imported urea for three ports namely Tuna, Paradip and Vizag till March 2021.

The ratings also factor in the vulnerability of profitability to regulatory policies and agro-climatic conditions as well as the sensitivity of cash flows to delays in subsidy receipts from the GoI. Such delays result in elevated debt levels and interest costs for the company and a modest financial risk profile characterised by high gearing and modest coverage indicators.

ICRA notes that NFL is in the midst of a capex programme of nearly Rs. 1,160 crore to be completed by the end of FY2020, which includes the energy-efficiency capex related to NUP-2015 along with other maintenance capex. As per the NUP 2015, the Nangal, Bhatinda and Panipat plants have to meet the energy consumption norm of 6.5 Gcal/MT from FY2021 onwards, post deferment of revision in the energy norms by two years from FY2019 to FY2021. To comply with the revised energy norms as per NUP-2015, NFL will be incurring a capex of around Rs. 675 crore for the Nangal, Bhatinda and Panipat plants, and another Rs. 220-crore for the Vijaipur-I & II plant. The capex is being funded majorly by debt, which is expected to result in the moderation of NFL's credit metrics, as the increase in debt will be coupled with a significant reduction in the energy savings being earned vis-à-vis current levels leading to a significant negative impact on the cash inflow from urea operations. By the end of May 2019, the company has spent around Rs. 334 crore on the capex programme.

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 the period from FY2021 to FY2025 for the Nangal, Bhatinda and Panipat plants. Alternatively, the company has requested for a one-time capital subsidy pay out to recover the investment in the energy savings projects and reduce reliance on debt. This will ensure the company's ability to maintain cash inflows from its urea operations and service the debt related to the capex. Given the GoI's track record of supporting NFL (owing to its strategic importance to ensure adequate urea availability in the country and its large sovereign ownership), ICRA expects the GoI to provide policy support. This will remain a key rating sensitivity as the lack of the same will result in material negative impact on the company's cash flows. ICRA also notes that ~Rs. 1,213 crore of subsidy payment on account of the revised fixed costs under the Modified New Pricing Scheme (NPS)-III is pending from the GoI (as the actual cash flow to the industry did not happen though the revision was notified in April 2014). The timely release of the unpaid fixed costs will enable NFL to maintain an adequate credit profile and lowering of the interest costs. Any negative development on this front will remain a key rating sensitivity.

ICRA also notes that the company is a joint-venture partner (a 26% stake) for a urea project at Ramagundam. Given the significant capital outlay for the project, the equity investment will lead to cash outflows from NFL in the medium term. The project is witnessing delays in commissioning owing to the delay in pipeline commissioning to December 2019 from the earlier expected September 2018. The project has also witnessed cost overrun of Rs. 666.0 crore on account of commissioning delays and higher margin money requirement for working capital requirements. Owing to cost over runs the equity contribution of NFL would increase by Rs 54.0 crore to Rs 396.0 crore from Rs 342 crore earlier. At the end of March 2019, NFL contributed nearly Rs. 273.0 crore. The project is expected to be commissioned by December 2019. NFL will be handling the marketing operations for the urea produced in the project and will earn a Rs. 140.0/MT marketing margin, which is expected to add ~Rs. 20.0 crore to NFL's profits. Investment in RFCL will enhance NFL's market position, owing to the access to large urea volumes once the project stabilises post commissioning.

Outlook: Negative

The 'Negative' outlook also factors in the increase in the company's borrowings due to increased subsidy receivables and increase in scale of operations following upscaling of its trading operations through which the company expects to improve its operating income. The outlook may be revised to 'Stable' if a) there is material improvement in the working capital position in the near term leading to reduction in reliance on the short-term borrowings and/or b) the company receives overdue fixed costs as part of urea subsidy payment mechanism. The ratings may be downgraded if the subsidy receivables remain at elevated levels for a prolonged period resulting in higher interest costs and weakening of debt coverage metrics. The ratings may also be downgraded if a) there is material weakening of profits following tightening of energy norms for its urea plants and/or ii) the company undertakes any sizeable debt-funded capex that would impact its leverage and debt coverage metrics materially.

Key rating drivers

Credit strengths

Second largest urea manufacturing capacity; third in market share for urea sales - 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 third in the market share (~13%) for urea sales in the country after IFFCO and KRIBHCO (KRIBHCO along with KFL). 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, 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.

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 plans to incur a capex of around Rs. 910-crore for four 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. Thus, NFL will get ample time to implement its energy norms. The investment will not be value accretive to the company but will have to be incurred, nevertheless, to meet the regulatory requirement. Given NFL's strategic importance to the GoI for the adequate availability of urea and the GoI's track record in providing support to NFL for its capex programme, ICRA expects the GoI to again 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. The working capital debt is backed by the subsidy receivables from the GoI.

Significant increase in gas costs may dent profitability for production beyond re-assessed capacity (RAC); DoF actions will be imperative for protection of production beyond RAC -Contribution from production beyond reassessed capacity RAC directly depends on the international urea prices and gas costs. In case there is a significant increase in gas costs coupled with subdued urea prices, the contribution from the production beyond RAC may witness downward pressure. However, the independence provided to the Department of Fertiliser (DoF) to undertake necessary action in scenarios of adverse gas prices and urea price movement to protect domestic urea production, are expected to largely mitigate the risk.

Liquidity position:

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.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector
Parent	NA
Consolidation	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)	8,954.4	12,245.2
PAT (Rs. crore)	212.8	298.5
OPBDIT/ OI (%)	5.8%	6.7%
RoCE (%)	9.6%	11.5%
Total Debt/ TNW (times)	1.5	2.9
Total Debt/ OPBDIT (times)	5.9	7.8
Interest Coverage (times)	2.7	2.6

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)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating		Date & rating FY2019			Date & Rating FY2018	Date & Rating in FY2017	
				August 2019	June 2019	February 2019	November 2018	April 2018	September 2017	September 2016	July 2016
Term Loan	Long term	1167.75	384.76	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Fund based limits	Long term	5000.00	-	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Non-fund-based limits	Short term	3000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
Commercial paper*	Short term	6000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
Un-allocated	Short term	10.25	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

** 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(Negative)
-	Term Loan-2	July 2018	-	March 2030	1044.00	[ICRA]AA(Negative)
-	Term Loan-3					
-	Fund Based-Long Term facilities*	-	-	-	5,000.00	[ICRA]AA(Negative)
-	Non-Fund Based-Short Term facilities	-	-	-	3,000.00	[ICRA]A1+
-	Commercial Paper*	-	-	-	6,000.00	[ICRA]A1+
-	Unallocated-Short Term	-	-	-	10.25	[ICRA]A1+

Source: National Fertilizers Limited

** 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*

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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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