Gujarat State Fertilizers & Chemicals Limited

September 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	465.00	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Reaffirmed
Short Term Bank Facilities	2,700.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**3,165.00 (Rupees Three Thousand One Hundred Sixty Five crore only)**		
Commercial Paper (CP) Issue	1,000.00 (Rupees One Thousand crore only)	**CARE A1+ (A One Plus)**	Reaffirmed

Details of instruments/ facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Gujarat State Fertilizers & Chemicals Ltd (GSFC) continue to derive strength from its established and integrated operations in fertilizers and industrial products with a diversified product profile, dominant market position in most of its products and efficient energy consumption parameters for urea and other plant operations with most of the plants operating at optimum capacity. The ratings also continue to reflect its comfortable leverage and liquidity along with high degree of financial flexibility. The ratings also factor GSFC's strategic investment for backward integration to secure supply of key raw materials. The ratings further take cognizance of the fact that the Department of Fertilizers (DoF) has agreed to release the subsidy on ammonium sulphate (AS) for the period from March 2013 to March 2017.

The long-term rating, however, continues to be constrained by the risk associated with regulated nature of fertilizer industry and delay in release of subsidy from Government of India (GoI) mainly in the second half of the financial year which leads to elongation of operating cycle and in turn higher reliance on short term borrowings. Volatility in prices and supply of key raw materials, fluctuations in forex rate and cyclicality associated with other industrial products also constrains the rating.

Any adverse changes in the regulations governing fertilizer industry, ability of GSFC to further improve its operational efficiency and profitability while maintaining its comfortable liquidity and capital structure would be the key rating sensitivities. Any significantly large investment requirement or higher than envisaged exposure to group entities would also be key credit monitorables.

CARE takes cognizance of the fact that the matter related to issuance of office memorandum (OM) by DoF for recovery of 'undue benefits' accrued with use of domestic gas for production of P&K fertilizers is pending before authority for deliberations. Further, GSFC had provided financial guarantee towards borrowings of Tunisian Indian Fertilizers, S.A. (TIFERT) and lenders issued a call notice towards the guaranteed amount in April 2017. The guarantee has however expired in March 31, 2018. CARE has not factored in the event risk pertaining to the above issues, however, any adverse deliberations could affect the credit metrics of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Well-established and integrated operations along with diversified product profile: GSFC's product range includes fertilizer products (manufacturing) like Di-Ammonium Phosphate (DAP), Urea, AS, Ammonium Phosphate Sulphate (APS) and chemical products like Caprolactam, Nylon-6 (N-6), Melamine, Nylon chips, MEK Oxime etc. Furthermore, GSFC trades in DAP, Urea, Methanol, Melamine and other fertilizer as well as Industrial products.

GSFC's operations are marked by high level of vertical integration across both fertilizers and industrial products division. GSFC meets its ammonia requirements for manufacturing of fertilizers such as urea, AS and APS and few chemical products through captive production. Furthermore, captive production of Caprolactam is used for manufacturing N-6. The integrated manufacturing facilities attempt full utilization of available resources.

Comfortable leverage and liquidity indicators: Overall gearing ratio of GSFC remained stable at 0.15x as on March 31, 2018. The working capital borrowings increased as on March 31, 2018 on account of implementation of direct benefit transfer (DBT). Subsidy receivables decreased from Rs.1,954 crore at FY17 end to Rs.1,742 crore at FY18 end mainly due to decrease in subsidy on urea on account of lower production cost and release of part ammonium sulphate subsidy.

GSFC's liquidity continued to remain comfortable with low average utilization of cash credit facilities as a percentage of sanctioned limits at 14% for the 12 months period ended in June 2018.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Strategic investments in backward integration mainly to secure steady supplies of raw material and power: To secure steady supply of Phosphoric Acid (PA) (the availability of which remains volatile) so as to increase the capacity utilization of its complex fertilizer portfolio at Sikka plant, GSFC has invested Rs.148 crore in Tunisian Indian Fertilizers S.A. (TIFERT; Joint Venture in Tunisia) (GSFC's holding is 15%). Through this investment, GSFC is entitled to receive 1,80,000 MT of PA per annum at market price. However, GSFC could get only 52,000 MT of PA in FY18 on account of lower production. The production in TIFERT has ramped up from March 2018 with receipt of 31,250 MT of PA during Q1FY19.
Further, to add Potassium (K) in its fertilizer portfolio and to capture the larger market share in NPK fertilizers, GSFC has also invested Rs.238 crore in Canada based company Karnalyte Resources Inc. (Karnalyte; engaged in the business of exploration and development of high quality agricultural and industrial potash and magnesium products). GSFC has signed off-take agreement with Karnalyte for 20 years for purchase of approximately 350,000 tonne of potash per year from phase-I of the project. Due to lower potash prices, currently the phase-I of the project has been stalled and its revival is under consideration.
GSFC has also invested around Rs.37 crore in Gujarat Industries Power Company Ltd (GIPCL; rated CARE AA-; Stable/ CARE A1+) which has enabled GSFC to avail power of around 38 MW out of GIPCL's gas based power plant of 145 MW.

Release of withheld AS subsidy: DoF has released the withheld subsidy of Rs.288.37 crore for the period from April 1, 2010 to March 17, 2013 (after adjusting Rs.33.78 crore). Further, DoF vide its office memorandum dated March 15, 2017 agreed to include AS produced by GSFC in the NBS scheme effective from March 6, 2017. The DoF has also agreed to release subsidy from March 18, 2013 to March 5, 2017 aggregating Rs.662.95 crore.

Key Rating Weaknesses

Event risk arising from order issued by DoF to recover 'undue benefits' earned by P&K fertilizer producers using cost effective domestic gas as feedstock: DoF issued OM on January 6, 2014 to GSFC and Rasthriya Chemicals & Fertilizers Ltd. for recovery of 'undue benefits' on account of usage of cost effective administered price mechanism (APM) gas to manufacture P&K fertilizers from the date of OM considering differential price of fertilizers based on imported ammonia and the APM gas.
GSFC has taken up the matter with the DoF and challenged the OM before the Hon. High court of Gujarat which has granted a stay order on the said OM. However, any significant recovery by DoF from mopping up of 'undue benefits' for ammonia produced using domestic gas, by GoI, could affect the company's credit metrics and will be crucial from credit perspective.

Regulated nature of fertilizer industry and delays in release of subsidy from GoI: The allocated fertilizer subsidy budget of Rs.70,000 crore for FY18 was grossly inadequate after factoring the back-log of unpaid subsidy of Rs.30,000 crore for FY17. As a result, the allocated subsidy budget of FY18 for urea and P&K fertilizers was exhausted in early H2FY18.
The subsidy for fertilizers was reduced during FY18 due to lower raw material costs resulting in lower subsidy outlay for FY18. This led to reduction in unpaid subsidy backlog to Rs.23,000 crore from FY18. However, in the backdrop of increase in raw material prices in Q1FY19; the fertilizer subsidy budget at Rs.70,090 crore for FY19 (unchanged from FY18 level) is likely to be inadequate for clearing the subsidy backlog and making payment for FY19 subsidy.
The shortfall in subsidy budget usually affects the cash flow position of companies in second half of the financial year and thus companies have to resort to higher short term borrowings to fund extended subsidy receivables. Further, with the pan-India implementation of DBT, the companies expect that working capital borrowings would go up with increase in subsidy receivables.

Event risk arising due to financial guarantee provided to TIFERT: GSFC had provided a sponsor guarantee for USD 41.1 million (proportionate to the shareholding of 15%) towards the borrowings of TIFERT. In March 2017, TIFERT had requested for re-schedulement of instalment due to its lenders. However, while the same was under discussion, an acceleration notice was served on TIFERT by its lenders on March 28, 2017. The loan instalment was immediately paid by TIFERT along with interest on March 31, 2017. However, on April 4, 2017 the lenders followed up with a call notice on TIFERT's shareholders towards the guaranteed amount (GSFC's share was around Rs.222.92 crore as on March 31, 2017 and Rs.177.00 crore as on March 31, 2018). TIFERT has paid the instalments due in September 2017, March 2018 and September 2018 as per schedule and the guarantee provided by GSFC has now expired on March 31, 2018.
As articulated by the company, TIFERT would be in a position to meet the debt obligations in future and it is unlikely that such an event of payment under guarantee amount will arise.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]

Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology - Fertilizer Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in 1962, GSFC (CIN no.L99999GJ1962PLC001121) is a public sector company promoted by the Government of Gujarat (GoG). GoG, through its undertaking Gujarat State Investment Ltd (GSIL), owns 37.84% of the paid-up capital of the company. The Chairman and Managing Director of the company are being appointed by GoG.

GSFC operates in two segments (1) fertilizers and (2) industrial products, with integrated manufacturing facilities enabling it to benefit from synergies; it manufactures a host of fertilizers and industrial products. While fertilizers contributed about 72% to the total income of FY18, industrial products contributed the balance 28%. GSFC manufactures fertilizers like di-ammonium phosphate (DAP), ammonium sulphate (AS), ammonium phosphate sulphate (APS), urea and industrial products like caprolactam, melamine, MEK oxime, polymers and nylon 6 (N-6).

Brief Financials - Standalone (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	5,308	6,348
PBILDT	530	645
PAT	420	476
Overall gearing (times)	0.12	0.15
Interest coverage (times)	8.16	12.56

A: Audited

As per provisional results, GSFC reported total operating income of Rs.1,796 crore with profit after tax of Rs.71 crore in Q1FY19 as against total operating income of Rs.1,189 crore with profit after tax of Rs.41 crore in Q1FY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/ Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	465.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	1500.00	CARE A1+
Fund-based - ST-Buyers Credit	-	-	-	1200.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	7-364 days	1000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	465.00	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Aug-17)	1)CARE AA+ (10-Aug-16)	1)CARE AA+ (15-Oct-15)
2.	Non-fund-based - ST-BG/LC	ST	1500.00	CARE A1+	-	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)	1)CARE A1+ (15-Oct-15)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1+	1)CARE A1+ (15-May-18)	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)	1)CARE A1+ (15-Oct-15)
4.	Fund-based - ST-Buyers Credit	ST	1200.00	CARE A1+	-	1)CARE A1+ (29-Aug-17)	1)CARE A1+ (10-Aug-16)	1)CARE A1+ (15-Oct-15)

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