

Gujarat State Fertilizers & Chemicals Limited (Revised)

December 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	300.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	4,100.00 (Enhanced from 2,865.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	4,400.00 (₹ Four thousand four hundred crore only)		
Commercial paper	1,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total instruments	1,000.00 (₹ One thousand crore only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings of Gujarat State Fertilizers & Chemicals Limited (GSFC) continue to derive strength from its established and integrated operations in fertilisers and industrial chemical products, with a diversified product profile and a dominant market position in most of its products and the strategic investment towards backward integration for securing the supply of key raw materials. The ratings also derive comfort from the improved performance of its fertiliser division during FY22 (refers to the period from April 1 to March 31) and H1FY23 largely on the back of an increase in the subsidy rates by the Government of India (GoI). Also, the ratings draw strength from its comfortable leverage and strong liquidity arising from the substantial realisation of its past subsidy dues in FY21 and its regular receipt thereon.

The long-term rating, however, continues to be constrained by the risks associated with the regulated nature of the fertiliser industry; the elevated level of raw material prices putting pressure on the subsidy budget of the GoI, which can potentially result in an elongation of the operating cycle, and in turn, increase the reliance on short-term borrowings; the volatility in the prices and supply of key raw materials, fluctuation in forex rates, and the cyclical nature associated with other industrial products.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant diversification of GSFC's operations to other fertiliser products along with a significant increase in its scale and earning return on capital employed (ROCE) above 25% on sustained basis.
- Improved profitability margin in both fertiliser and industrial product divisions, leading to an overall profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of more than 12% on a sustained basis.
- Effective management of its working capital requirements with timely receipt of subsidy from the GoI, resulting in maintaining its operating cycle to less than 90 days.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Moderation in its PBILDT margin to less than 7% on a sustained basis.
- Moderation in its market position in the fertiliser business.
- Significant build-up of subsidy receivables, leading to elongation in the operating cycle beyond 200 days on a sustained basis, which can have an adverse impact on its liquidity.
- Major debt-funded capex or increase in working capital borrowings to fund large subsidy receivables, leading to a deterioration in its Total Debt/PBILDT to more than 3x on a sustained basis.
- Any adverse changes in the regulations governing the fertiliser industry and/or unforeseen material liability arising wrt any long-pending disputed matters.

Detailed description of the key rating drivers

Key rating strengths

Well-established and integrated operations along with a diversified product profile:

GSFC's product range includes fertiliser products (manufacturing) like di-ammonium phosphate (DAP), ammonium sulphate (AS), ammonium phosphate sulphate (APS), urea, and industrial chemical products like caprolactam, nylon-6 (N-6), melamine, MEK oxime, etc. Furthermore, GSFC trades in DAP, urea, ammonia, methanol and other fertilisers, as well as industrial products.

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

GSFC's operations are marked by a high level of vertical integration across both, the fertilisers and industrial products divisions. GSFC meets part of its ammonia and sulphuric acid requirement for the manufacturing of fertilisers and a few industrial products through captive production. Furthermore, the captive production of caprolactam is used for manufacturing Nylon-6. The integrated manufacturing facilities attempt better utilisation of the available resources.

Improved performance of the fertiliser division, supported by a hike in subsidy rates:

The performance of GSFC's fertiliser division improved, marked by a total operating income (TOI) of ₹6,150 crore during FY22 (PY: ₹5,863 crore). However, the division suffered a significant decline in sales volumes by around 25% on account of the elevated raw material prices. Its profit before interest and taxes (PBIT) margin from the fertilizer segment improved from 6.29% during FY21 to 11.28% during FY22 owing to a high subsidy booking even for the earlier years. The revenue from operations is expected to improve in FY23, largely due to good demand on account of the monsoons and the upcoming Rabi season and an increase in subsidy rates by the government for FY23.

The performance of the fertiliser division improved further in H1FY23, marked by a TOI of ₹4,139 crore (₹2,919 crore in H1FY22) with a PBIT margin of 22.25% (6.10% in H1FY22). Going forward, the profitability of the fertiliser segment is likely to be impacted by the continued elevated level of prices of its key raw materials.

Significant improvement in the performance of industrial products in FY22, albeit expected to moderate:

The performance of GSFC's industrial products division improved in FY22, marked by a TOI of ₹2,933 crore (PY: ₹1,771 crore) and its segment PBIT of ₹524 crore (PY: ₹126 crore) on account of higher caprolactam-benzene spread and melamine sales during the year. However, the industrial products division witnessed PBIT level loss of ₹48 crore in H1FY23 largely on account of softening of finished goods prices as against continuous volatility in raw material prices. Accordingly, the performance of its industrial products division is likely to moderate in FY23.

Comfortable leverage and debt coverage indicators:

GSFC had almost nil leverage as on March 31, 2022, owing to a steady realisation of subsidy dues from the GoI. This resulted in comparatively low working capital requirements, and thereby, lower interest costs. However, the working capital requirement of the company stood high as on September 30, 2022 largely on account of increase in subsidy receivables as on date; due to increase in subsidy rates by GOI commensurate with high raw material prices. However, the company is expected to have lower receivables by end-FY23. The company is expected to fund its ongoing capex from its available liquidity and has no plans for any debt-funded capex in the short term, which is likely to result in continued comfortable leverage and debt coverage indicators going forward.

Strategic investments towards backward integration mainly to secure steady supplies of raw material and power:

To secure the steady supply of phosphoric acid (PA) (the availability of which remains volatile) in order to increase the capacity utilisation of its complex fertiliser portfolio at its Sikka plant, GSFC had bought 15% stake in Tunisian Indian Fertilizers, S.A. (TIFERT). Through this investment, GSFC is entitled to receive 180,000 metric tonne (MT) of PA per annum at the market price. During FY22, GSFC received 63,808 MT of PA (FY21: 52,388 MT) from TIFERT.

Furthermore, to add potassium (K) to its fertilizer portfolio and to capture a larger market share in NPK fertilizers, GSFC has also invested in a 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 an off-take agreement with Karnalyte for 20 years for the purchase of approximately 350,000 tonne of potash per year from the project. GSFC, in July 2022, also decided to invest around ₹20 crore (CAD 3.25 million) in the rights issue of the company. However, considering the upward trend in Potash prices, Karnalyte is in the process of updating Technical Report and further actions will be decided based on outcome of that report.

GSFC also benefits from its wind farm with a capacity of 152.80 MW, captive gas-based power plant of 45 MW, waste heat recovery steam generator of 15 MW, and a solar power plant of 10 MW. GSFC also has investments in Gujarat Industries Power Co Ltd (GIPCL; rated CARE AA-; Stable/CARE A1+), where by virtue of being a promoter, GSFC has the availability of 38 megawatt (MW) of power out of GIPCL's gas-based power plant of 145 MW.

Modular capex under progress, albeit large-size capex plans under deliberation:

GSFC has proposed to undertake a few modular-size projects, which include an ammonium sulphate plant (400 metric tonne per day (MTPD)), an HX crystal project (20 MTPD), a solar power project (15 MW), along with revamping of its urea plant at Vadodara to meet NUP 2015 energy consumption norms and improve its production capacity. Overall, its capex plan for the next three years amounts to around ₹770 crore, which is expected to be funded entirely from its internal accruals and surplus liquidity. Further, as part of the green initiatives of the GoI for clean energy-related actions and reducing the country's dependence on natural gas carbon print, GSFC is considering setting up a green hydrogen project (1.44 kilo tonne per annum (KTPA)) at its Vadodara unit.

GSFC has a few major capex plans under the deliberation stage, which include a phosphoric acid (600 MTPD) and sulphuric acid plant (1,800 MTPD) at Sikka and a melamine plant (40,000 MTPA). The size of these projects is expected to be substantially high. GSFC has significant headroom for undertaking some debt-funded capex, with a comfortable overall gearing. However, the undertaking of any of these major capex plans with a high reliance on the debt will be a key credit monitorable.

Liquidity: Strong

The liquidity of GSFC is strong, marked by healthy expected cash accruals against no-term debt repayment obligations and low average utilisation of its fund-based limit at around 23% in the last 12 months ended September 30, 2022. It had cash and fixed deposits (largely parked with Gujarat State Financial Services Limited) of around ₹1,622 crore and ₹834 crore as on March 31, 2022 and September 30, 2022 respectively. It also had substantial quoted equity investments to the tune of ₹5,315 crore as on March 31, 2022.

GSFC has sanctioned fund-based working capital limits of ₹300 crore with a consortium of lenders and it has ₹1,440 crore of working capital limits with a set of lenders outside the consortium. Furthermore, it has sanctioned non-fund-based working capital limits of ₹2,660 crore, which is utilised for the import of its raw material requirements. The operating cycle of GSFC also improved substantially on account of receipt of subsidy backlogs in FY22.

Key rating weaknesses

Regulated nature of the fertiliser industry and inherent delays associated with the release of the subsidy from the GoI:

The profitability of fertiliser manufacturers is influenced by the regulations governing various types of fertilisers, wherein, the government controls the fertiliser prices and provides subsidies. The quantum of subsidy receivables and delays associated with the receipt of the same inherently impacts the liquidity of the fertiliser industry, albeit differs with the type of fertilizer. During FY22, the fertilizer manufacturers curtailed the production of a few fertilizers, primarily DAP, wherein, few manufacturers incurred losses in FY22 due to the multi-year elevated input prices. However, there has been a sharp upward revision in the subsidy rates for all the nutrients for H1FY23. In the Union Budget for FY23, the GoI had initially provided for a total fertilizer subsidy of ₹1.05 lakh crore, which was subsequently enhanced by another ₹1.10 lakh crore in May 2022 looking at the elevated prices of key raw materials and natural gas, thereby taking the total fertilizer subsidy budget for FY23 to an all-time high of ₹2.15 lakh crore.

The shortfall in the subsidy budget amid the volatile raw material prices may lead companies to resort to higher short-term borrowings to fund extended subsidy receivables. Regular intervention by the government to increase the subsidy budget, NPK nutrient rates, and minimum selling prices (MSP) help the sector to work in a regulated manner. The government is also planning to implement the second phase of DBT and is planning to explore the option of directly transferring the subsidy to the farmers' accounts, which can be beneficial for the fertilizer companies. However, it will have a substantial burden on the government finances, and accordingly, the rollout of the second phase of DBT can take some time.

Event risks:

GSFC had provided a sponsor guarantee for US\$ 41.1 million (proportionate to the shareholding of 15%) towards the borrowings of TIFERT. In March 2017, TIFERT requested a re-scheduling of the 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. TIFERT has paid the subsequent instalments due as per the schedule and the guarantee provided by GSFC expired on March 31, 2018.

As articulated by the company, TIFERT will be in a position to meet its future debt obligations and it is unlikely that an event of payment under the guaranteed amount will arise on GSFC.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted the 'Consolidated' analytical approach for GSFC, as there are strong operational and financial linkages among GSFC and its subsidiaries. Also, GSFC has actively started retail operations through its wholly-owned subsidiary, viz, GSFC Agrotech Limited, through its retail stores. The list of companies consolidated has been placed in **Annexure-4**.

Applicable criteria

[Criteria for assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE Ratings' policy on Default Recognition](#)

[Rating methodology – Manufacturing companies](#)

[Rating methodology – Fertilizer companies](#)

[Rating methodology – Consolidation](#)

[Liquidity analysis of non-financial sector entities](#)

[Financial ratios – Non-financial sector](#)
[Criteria for short-term instruments](#)

About the company

Incorporated in 1962, GSFC is a public sector undertaking 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 appointed by GoG.

GSFC operates in two segments: (i) fertilizers and (ii) industrial products, with integrated manufacturing facilities enabling it to benefit from synergies by manufacturing a host of fertilizers and industrial products. Fertilizers contribute around 60-70% to the TOI, whereas industrial products contribute a balance of 30-40%. GSFC manufactures fertilizers like DAP, AS, APS and urea, and industrial products like caprolactam, nylon-6, melamine, MEK oxime, and polymers, among others.

Brief Financials (Consolidated) (₹ Crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
TOI	7,644	9,095	5,609
PBILDT	584	1,334	1,021
PAT	450	899	631
Overall gearing (times)	0.00	0.00	0.01
Interest coverage (times)	13.59	136.56	177.87

A: Audited; UA: Unaudited; NA: Not available.

Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments: Not applicable

Complexity level of the various instruments rated for this company: Please refer to Annexure-3

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
Commercial paper-Commercial paper (Standalone)*	-	-	-	7-364 days	1000.00	CARE A1+
Fund-based - LT-Cash credit	-	-	-	-	300.00	CARE AA+; Stable
Fund-based - ST-Others	-	-	-	-	1440.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	2660.00	CARE A1+

* No commercial paper was outstanding as on December 06, 2022.

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (27-Sep-22)	1)CARE AA+; Stable (28-Sep-21)	1)CARE AA+; Stable (29-Sep-20)	1)CARE AA+; Stable (04-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	2660.00	CARE A1+	1)CARE A1+	1)CARE A1+	1)CARE A1+	1)CARE A1+

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
					(27-Sep-22)	(28-Sep-21)	(29-Sep-20)	(04-Oct-19)
3	Commercial paper- Commercial paper (Standalone)	ST	1000.00	CARE A1+	1)CARE A1+ (27-Sep-22)	1)CARE A1+ (28-Sep-21)	1)CARE A1+ (29-Sep-20)	1)CARE A1+ (04-Oct-19)
4	Fund-based - ST- Others	ST	1440.00	CARE A1+	1)CARE A1+ (27-Sep-22)	1)CARE A1+ (28-Sep-21)	1)CARE A1+ (29-Sep-20)	1)CARE A1+ (04-Oct-19)

*Long-term/Short-term.

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - ST-Others	Simple
4	Non-fund-based - ST-BG/LC	Simple

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.

Annexure-4: List of entities getting consolidated with GSFC

Sr. No.	Name of Companies/Entities	Percentage holding as on September 30, 2022 (%)
1.	GSFC Agrotech Ltd	100.00
2.	Gujarat Port & Logistics Company Ltd.	60.00
3.	Vadodara Jalsanchay Pvt Ltd.	60.00
4.	Vadodara Enviro Channel Limited	28.57
5.	Gujarat Green Revolution Company Limited	46.87
6.	Karnalyte Resources Inc (Canada)	47.73

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please [click here](#)

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About us:

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