

India Ratings Affirms Gujarat State Fertilisers & Chemicals at 'IND AA+' / Stable; Limits Enhanced

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India Ratings and Research (Ind-Ra) has affirmed Gujarat State Fertilisers & Chemicals Limited's (GSFC) Long-Term Issuer Rating at 'IND AA+'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR4,630	IND AA+/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	-	INR9,972.8	IND AA+/Stable/IND A1+	Affirmed
Proposed fund-based working capital limits*	-	-	-	INR20	Provisional IND AA+/Stable/Provisional IND A1+	Affirmed
Proposed non-fund-based working capital limits*	-	-	-	INR27.2	Provisional IND AA+/Stable/Provisional IND A1+	Affirmed
Short-term debt programme	-	-	-	INR8,000 (increased from INR3,000)	IND A1+	Affirmed
Commercial paper (CP) programme	-	-	7-365 days	INR10,000	IND A1+	Affirmed

* The ratings are provisional and shall be confirmed upon the sanction and execution of loan documents for the above facilities by GSFC to the satisfaction of Ind-Ra.

Key Rating Drivers

Improved Financial Performance: In FY18, GSFC's net revenue increased 19.0% yoy to INR62.6 billion, led by a 22.5% yoy rise in revenue from the fertilizer segment to INR45.1 billion. During the period, revenue from the industrial products segment was unchanged at INR17.9 billion; however, the segment's EBIT increased 27.8% yoy to INR1.8 billion. GSFC's EBITDA increased 15.3% yoy to INR5.6 billion in FY18, led by a rise in the capro-benzene spread to an average USD1,050/tonne (FY17: USD820/tonne). During 1HFY19, GSFC reported revenue of INR44.4 billion (1HFY18: INR26.8 billion) and an EBITDA of INR4.31 billion (INR1.78 billion).

Ind-Ra expects higher raw material prices and rupee depreciation to impact the margins in the fertiliser segment during FY19. This impact would however be mitigated by higher average capro-benzene spread (USD1,200/MT), which would continue to lead the margin growth of the industrial segment.

Strong Liquidity: Ind-Ra expects GSFC's cash flow from operations to remain positive in FY19, in view of an increase in EBITDA and a further improvement in the working capital. Cash flow from operations fell to INR3.4 billion in FY18 (FY17: INR8.6 billion; FY16: negative INR5.4 billion), owing to an increase in the year end working capital. The company's working capital limit utilisation was 32.0% on average over the 12 months ended September 2018. In addition, it raised short-term loans and CPs during FY18 and has the flexibility to further avail the facilities at competitive rates. The receipt of INR2.6 billion of pending ammonium sulphate subsidy also supported the receivables position of the company.

Comfortable Credit Metrics: GSFC's net financial leverage (adjusted debt net of free cash and subsidy receivables/operating EBITDAR) remained negative in FY19. During the period, the company borrowed an INR2 billion term loan for its melamine project. Thus, at FYE18, a total term loan of INR2.51 billion (FYE17: INR1.1 billion) and a working capital loan of INR8.4 billion (INR7.0 billion) were outstanding. Furthermore, subsidy receivables stood at INR17.18 billion at FYE18 (FYE17: INR19.26 billion).

Moreover, GSFC's gross interest coverage (operating EBITDAR/gross interest expense) improved to 11.0x in FY18 (FY17: 7.1x) on account of an increase in EBITDA and a low interest expense.

Established Business Profile: GSFC has an established presence in the domestic fertiliser and chemical segments. It has high operational and business synergies on account of its integrated manufacturing operations, diversified product offerings and market leadership position in the space for industrial chemical products, especially caprolactam (72% market share) and melamine (33% market share). Its other key products include diammonium phosphate, urea and nylon 6.

Moderate Capex Plans: The management is focused on completing its ongoing capex, undertaking debottlenecking to improve efficiency and consolidating the existing businesses. The capex programme is likely to have a low impact on the debt protection metrics, as debt-funded capex would be lower than Ind-Ra's expectations. An improvement in the profitability, along with a gradual reduction in debt, will support the net leverage in the short term.

Financial Guarantee for TIFERT Loans: GSFC's JV Tunisian Indian Fertilisers S.A. (TIFERT) was facing liquidity issues in FY17 and had requested for the rescheduling of loans in March 2017. The request was rejected by the lenders. TIFERT paid the loan instalment on 31 March 2017 through customer advances. The operational position of TIFERT has improved since then. The total amount of loans availed by TIFERT was USD316 million which has since reduced to USD167 million on 1 October 2018.

GSFC and other sponsors of TIFERT had provided a sponsor guarantee proportionate to their shareholding. Although the guarantee expired in March 2018, it is under discussion with TIFERT lenders and is likely to be renewed for the residual tenor of the loan. GSFC's liability for the balance loan amount is likely to be restricted proportionate to its shareholding (15%). Accordingly, Ind-Ra has included GSFC's obligation towards this loan on pro-rata basis in its total adjusted debt calculations.

Fertiliser Policy and Industry Cyclicity: GSFC remains exposed to changes in the fertiliser policy, as it depends on the government for subsidies. Any change in the subsidy payout mechanism or timing is, thus, critical to GSFC's credit profile. The company received high subsidy payouts in the last few years. The industrial segment also remains exposed to international competition and cyclicity. The segment contributed 28.0% and 38.0% to revenue and EBIT, respectively, in FY18 (FY17: 33.0% and 34.0%).

Rating Sensitivities

Negative: Further significant delays in subsidy reimbursements will be negative for the ratings. Any debt-led capex plans or an increase in the adjusted debt for providing financial support to associate companies leading to net financial leverage exceeding 2.0x and/or gross interest coverage reducing below 3.0x on a sustained basis will be negative for the ratings.

Company Profile

Incorporated in 1962, GSFC is a government of Gujarat public sector undertaking with presence in the space for fertilisers and industrial products. Gujarat State Investments Limited and institutional investors (domestic and foreign) hold about 38% and 35% in GSFC, respectively, followed by non-institutional investors (about 27%). GSFC has four manufacturing facilities across Gujarat.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR billion)	62.7	52.6
EBITDA (INR billion)	5.6	4.9
EBITDA margin (%)	9.0	9.3
Gross interest expense (INR billion)	0.5	0.6
Profit before tax (INR billion)	4.9	3.8
Net income (INR billion)	4.7	4.2
Source: GSFC		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	18 May 2018	5 October 2017	29 June 2016
Issuer rating	Long-term	-	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Fund-based working capital limits	Long-/short-term	INR4,650	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+

Non-fund-based working capital limits	Long-/short-term	INR10,000	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+
Short-term debt programme	Short-term	INR8,000	IND A1+	IND A1+	IND A1+	IND A1+
CP programme	Short-term	INR10,000	IND A1+	IND A1+	IND A1+	IND A1+

Complexity Level of Instruments

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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APPLICABLE CRITERIA

Corporate Rating Methodology

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