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

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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	-	-	-	INR3,000	IND AA+/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	-	INR10,000	IND AA+/Stable/IND A1+	Affirmed
Short-term debt programme	-	-	-	INR9,650	IND A1+	Affirmed
Commercial paper (CP)	-	-	7-365 days	INR10,000	IND A1+	Affirmed

Analytical Approach: To arrive at the ratings, Ind-Ra continues to take a consolidated view of GSFC and its subsidiaries - GSFC Agrotech Limited (100% stake),Gujarat Arogya Seva Pvt. Ltd.(50.94%), Gujarat Port and Logistics Company Limited (60%) and Vadodara Jal Sanchay Private Limited (60%) – and its associates - Vadodara Enviro Channel Limited, Gujarat Green Revolution Company Limited and Karnalyte Resources Inc - owing to the significant operational and financial linkages between the entities.

Key Rating Drivers

Continued Policy Level Support to Maintain Subsidy Outstanding: The fertiliser sector continued to receive additional budgetary support in FY22, with the overall additional subsidy allocation increasing to INR1.38 trillion from the initial budgeted subsidy of INR795 billion. The government of India (GoI) has increased the subsidy in three tranches, factoring in the continued increase in the prices of input raw materials. The increased subsidy also factors in an increase in the urea subsidy requirement by an additional INR150 billion on account of a rise in the natural gas prices. The overall increase in the subsidy allocation will keep the prices of complex fertilisers, and thus their demand, largely stable for farmers during FY22.

The GoI had extended the extra-ordinary policy-level support to the fertiliser sector in FY21 as well in the form of additional INR626 billion subsidy, to clear the entire subsidy backlog and free-up significant working capital funds over the near-to-medium term. Ind-Ra expects a continued timely intervention by the GoI to support the sector and keep the overall subsidy dues comfortable. GSFC's outstanding fertiliser subsidy had reduced to INR5.1 billion at FYE21 (FYE20:

INR17.9 billion), before increasing to INR9.1 billion at end-1HFY22 due to increased raw material prices. The debtor days stood at 116 during 1HFY22 (FY21: 47, FY20: 124); however, given the additional budget allocated during 2HFY22, Ind-Ra expects the subsidy receivables to remain comfortable at less than 100 days over the short-to-medium term.

Improvement in Credit Metrics; Strong Ratios: Ind-Ra expects the improvement in the consolidated credit metrics to sustain in the short to medium term, given no major debt led capex planned by the company. The net leverage (adjusted net debt/EBITDAR) turned negative in FY21 (FY20: 5.5x), led by a reduction in the total borrowings, as the company fully repaid its term loan, and reduced its short-term borrowings, owing to the clearance of the subsidy backlog. The net adjusted leverage continued to be negative in 1HFY22. The annualised net leverage (adjusted net debt/EBITDAR) also remained negative in 1HFY22 (FY21: negative 1.6x). Furthermore, the interest cover (EBITDAR/finance cost) improved to 113x in 1HFY22 (FY21: 13.3x; FY20: 3x), led by a decline in the finance cost, owing to the decrease in the working capital debt.

At the standalone level, GSFC’s net adjusted leverage (net debt/EBITDA adjusted for subsidy and other government receivables) continued to be negative at 1.7x during 1HFY22 (FY21: negative 1x, FY20: 1.3x). The interest cover was 112x in 1HFY22 (FY21: 13x; FY20: 3x).

Ind-Ra has adjusted the debt against some contingent liabilities under arbitration, claims of which are yet to be settled. Furthermore, GSFC and other sponsors of the joint venture, Tunisian Indian Fertilisers S.A. (TIFERT), had provided a sponsor guarantee proportionate to their shareholding for latter's bank loan, which expired in FY18, and was not renewed. TIFERT has been making its debt repayments in a timely manner, and as per GSFC’s management, it is unlikely the sponsors would have to make any payments under said guarantee. Accordingly, Ind-Ra has excluded GSFC’s obligation towards this loan in its total adjusted debt calculations.

Improvement in Operating Performance; Robust Revenue and Margins: At the consolidated level, GSFC’s overall revenues rose to INR43.8 billion in 1HFY22 (1HFY21: INR37.4 billion, FY21: INR76.3 billion; FY20: INR77.98 billion). The operating EBITDA improved to INR5.3 billion (INR2.98 billion; INR5.7 billion; INR3.2 billion), with the EBITDA margins improving to 12% (8%, 7%, 4%), primary led by the increased industrial chemicals segment's realisations. The industrial chemicals segment saw an improvement in the margins, led by the improvement in the caprolactam-benzene spread, which remained over USD1,000/tonne in 1HFY22. The segmental EBIT improved to INR2.9 billion in 1HFY22 (1HFY21: negative INR36 million; FY21: INR1.3 billion) and the EBIT margin improved to 20% (negative 0.1%; 7%).

The fertiliser segment EBIT margins marginally moderated to 6.1% in 1HFY22 (1HFY21: 8.4%, FY21: 6.3%), led by the increasing input prices of nitrogen, phosphorus, potassium, and sulphur and di-ammonium phosphate fertilisers. Furthermore, Ind-Ra expects the margins of the fertiliser segment to remain moderated in FY22, led by the tightening of the gas efficiency norms for the production of urea.

At the standalone level, GSFC’s net revenue was INR43.8 billion in 1HFY22 (1HFY21: INR36.8 billion; FY21: INR75 billion), while the EBITDA was INR5.3 billion (INR2.97 billion; INR5.5 billion), leading to the EBITDA margins improving to 11.8% (8.1%, 7.3%).

Liquidity Indicator - Adequate: At end-1HFY22, GSFC had unencumbered cash and cash equivalents of INR13 billion (FY21: INR11 billion; FY20:0.4 billion), including INR11.4 billion (INR8.5 billion, nil) deposited with Gujarat State Financial Services Limited. These funds are fully fungible. Furthermore, the company has access to the fund-based limits of INR3 billion and short-term limits of INR9.65 billion, the average utilisation of the limits was 4% and 10% respectively, for the 12 months ended November 2021.

GSFC also had liquid investments of INR37.7 billion in other listed entities at FYE21 (FYE19: INR16.1 billion). In addition, the company has access to capital markets and has strong relationships with the banking system and benefits from low rates of interest for their borrowings.

The cash flow from operations improved to INR16.7 billion in FY21(FY20: negative INR972 million; FY19:INR4.5 billion), owing to the improvement in the EBITDA and receipt of the subsidy backlog by the GoI. Ind-Ra, however, expects the FY22 cash flows from operations to be lower than the FY21 levels, if the subsidy requirement is increased. Nonetheless, the company has access to capital markets to meet its short-term funding requirements. The company has no long-term loans and repayments due in FY22.

Established Business Profile: GSFC has an established position 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 (45% market share). However, the industrial segment continues to be exposed to volatility in the benzene-caprolactam spreads.

Modest Capex Plans: The entity incurred capex of INR884 million in FY21 for the operations and maintenance activities of all the plants and plans to incur capex of INR7.2 billion over FY22 to FYE24, of which INR3 billion will be towards an improvement of energy consumption in the urea plant. The company has already spent around INR350 million on nylon compounding lines, commissioned in 3QFY22. The balance capex to be done for ammonium sulphate, sulphuric acid and solar power generation capacities.

Rating Sensitivities

Positive: A sustained improvement in the profitability in both fertilisers and industrial product segments coupled with a reduction in borrowings, favourable structural changes in the urea subsidy policy, leading to the timely receipt of subsidy receivables, resulting in a maintenance of the current levels of net adjusted leverage and the interest coverage, on a sustained and consolidated basis, could result in a positive rating action.

Negative: A sustained decline in the operating performance and/or significant delays in subsidy reimbursements will be negative for the ratings. Any significant debt-led capex or an increase in the adjusted debt for providing financial support to associate companies, leading to the net financial leverage exceeding 1.5x and/or the gross interest coverage reducing below 3.0x, on a consolidated and sustained basis, will be negative for the ratings.

Company Profile

Incorporated in 1962, GSFC is a joint sector company promoted by government of Gujarat, with a 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 two operational manufacturing facilities across Gujarat.

FINANCIAL SUMMARY

Particulars	1HFY22	FY21	FY20
Revenue (INR billion)	43.8	76.3	77.98
EBITDA (INR billion)	5.3	5.7	3.17
EBITDA margin (%)	12	7	4
Gross interest expense (INR billion)	0.05	0.4	1.15
Interest coverage ratio (x)	113.1	14.3	2.8
Net income (INR billion)	1.7	5.3	1.1
Source: GSFC, Ind-Ra			

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	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook		
				25 December 2020	26 December 2019	13 November 2018
Long Term Issuer Rating	Long-term	-	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Stable
Fund-based working capital limit	Long-term/Short-term	INR3,000	IND AA+/Stable/IND A1+	IND AA+/Stable /IND A1+	IND AA+/Negative/IND A1+	IND AA+/Stable / IND A1+
Non-fund based working capital limit	Long-term/Short-term	INR10,000	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Negative/IND A1+	IND AA+/Stable /IND A1+
CP	Short-term	INR10,000	IND A1+	IND A1+	IND A1+	IND A1+
Short-term debt programme	Short-term	INR9,650	IND A1+	IND A1+	IND A1+	IND A1+

Complexity Level of Instruments

Instrument Type	Instrument complexity

Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Short-term debt programme	Low
CP	Low

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

Short-Term Ratings Criteria for Non-Financial Corporates