

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 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 – to review the ratings, owing to the significant operational and financial linkages among the entities.

Key Rating Drivers

Established Business Profile and Integrated operations: 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 (56% market share) and melamine (40% market share). However, the industrial segment continues to be exposed to volatility in the benzene-caprolactam spreads.

Improvement in Operating Performance; Robust Revenue and Margins: The consolidated revenue rose to INR55.1 billion in 1HFY23 (1HFY22: INR43.8 billion, INR90.8 billion, FY21: INR76.3 billion), due to an increase in sales realisations. The operating EBITDA improved to INR9.1 billion in 1HFY23 (1HFY22: INR5.3 billion; FY22: INR13.2 billion, FY21: INR5.7 billion), with the EBITDA margins improving to 16% (12%, 15%, 7%), primary led by higher margins in the fertiliser segment as compared to that of the industrial segment. The reported EBIT of the fertiliser segment rose to INR9.2 billion in 1HFY23 (1HFY22: INR1.8 billion, FY22: INR6.9 billion, FY21: INR3.7 billion) while that of the industrial segment

turned negative (INR2.9 billion, INR5.2 billion, INR1.2 billion). The fertiliser segment EBIT increase was primarily to the softening of raw material prices and backward integration by GSFC. The industrial segment reported negative EBIT in 1HFY23 due to an increase in raw material prices. While there have been prompt subsidy increases announced by the government during FY22 and FY23 for meeting the increase in raw material costs by fertiliser players, in case the prices reduce materially, Ind-Ra expects subsidy outlays could be adjusted, and therefore, the overall margins will remain dependent on the same.

Continued Strong Credit Metrics: GSFC continued to report strong credit metrics despite an increase in the subsidy receivables, led by strong EBITDA generation and internal accruals. Ind-Ra expects GSFC's consolidated net adjusted leverage (adjusted for subsidy) to remain negative in FY23 (FY22: negative 1.8x, FY21: negative 2.3x). Even without adjusting subsidy, the net leverage is expected to be negative in FY23 (FY22: negative 1.2x, FY21: negative 1.4x), led by the high cash balance and minimal debt. The interest coverage is likely to remain strong at over 100x in FY23 (FY22: 134x, FY21: 13.3x).

Liquidity Indicator – Adequate: GSFC has access to INR3 billion of fund-based limits and INR10 billion of non-fund-based limits, the average utilisation of which stood at 3% and 58%, respectively, over the 12 months ended November 2022. Furthermore, the company had INR9 billion of unencumbered cash balances at end-1HFY23 (FYE22: INR16.5 billion; FYE21: INR11 billion), including INR5.3 billion (INR13.5 billion, INR8.5 billion) deposited with financial institutions and banks. GSFC has no repayments as the company has nil long-term debt. GSFC had INR63.1 billion of long-term investments including INR53.1 billion in quoted equity securities at FYE22 (FYE21: INR42.3 billion,).

Modest Capex Plans: The company incurred capex of INR387 million during 1HFY23 (FYE22: INR948 million, FYE21: INR884 million), mainly for the operations and maintenance activities of its plants and partially towards ammonium sulphate expansion, 15MW solar project, urea revamping project and Hydroxylamine Crystal project. The total outlay for the projects is INR7.74 billion phased during FY23-FY25, which the management expects to fund through internal accruals. During FY22, the company completed two Nylon-6 compounding lines of 24MTPD each. Ind-Ra expects the credit metrics to remain comfortable despite the planned capex as capex outlay is moderate; however a higher-than-expected debt-funded capex could impact the metrics.

Credit Profile of Fertiliser Players to Remain Dependent on Subsidy Disbursements: Ind-Ra believes the credit profiles of fertiliser players will continue to be dependent upon the government support in terms of policies and budgetary allocations. The subsidy budget for FY23, through additional allocation, was increased to INR2.25 trillion (budgeted estimates: INR1.05 trillion), led by high-cost scenarios and stable farm gate prices.

Led by the high raw material costs, and the consequent subsidy prices, GSFC's outstanding fertiliser subsidy increased to INR20.86 billion at end-1HFY23 (FYE22: INR6.8 billion, FYE21: INR5.1 billion). The increase in the subsidy, led to an increase in the debt to INR1.04 billion at end-1HFY23 (FYE22: INR28 million); however, given the high cash balances, the net leverage remained negative during 1HFY23 and the interest cover was healthy at 160x (FYE22: 134x, FY21: 13.3x)

The fertiliser sector received an additional budgetary support in FY21 and FY22, with the overall additional subsidy allocation increasing to INR1.28 trillion and INR1.4 trillion, respectively, from the initial budgeted subsidy of INR713 billion and INR795 billion, respectively. Given the continued budgetary support provided by the GoI to the sector over FY21-FY23, Ind-Ra expects the continued payments of the current dues and the subsidy pay-outs to remain streamlined over the short-to-medium term.

Rating Sensitivities

Positive: A sustained improvement in the profitability in both fertilisers and industrial product segments, coupled with a reduction in the borrowings, and favourable structural changes in the urea subsidy policy, leading to the timely receipt of subsidy receivables, resulting in a maintenance of the 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 adjusted leverage exceeding 1.5x and/or the interest coverage reducing below 3.0x, on a consolidated and sustained basis, will be negative for the ratings.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on GSFC, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

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	FY22	FY21
Revenue (INR billion)	90.8	76.3
EBITDA (INR billion)	13.2	5.7
EBITDA margin (%)	14.5	7
Gross interest expense (INR billion)	0.09	0.4
Interest coverage ratio (x)	134	14.3
Net income (INR billion)	9	5.3
Source: Ind-Ra, 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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook		
				24 December 2021	25 December 2020	26 December 2019
Long-Term Issuer Rating	Long-term		IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative
Fund-based working capital limit	Long-term/Short-term	INR3,000	IND AA+/Stable /IND A1+	IND AA+/Stable / IND A1+	IND AA+/Stable / IND A1+	IND AA+/Negative / 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+/Stable / IND A1+	IND AA+/Negative / IND A1+
CP	Short-term	INR10,000	IND A1+	IND A1+	IND A1+	IND A1+
Short-term debt	Short-term	INR9,650	IND A1+	IND A1+	IND A1+	IND A1+

Bank wise Facilities Details

Click here to see the details

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

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

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