Khaitan CHEMICALS AND FERTILIZERS LIMITED
CIN : L24219MP1982PLC004937
Apollo Arcade, 3rd Floor, 1/2, Old Palasia, Indore - 452018 (M.P.)
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October 18, 2022

To,
The Manager (DCS/Compliance)
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, MUMBAI- 400 001
Scrip Code : 507794

To,
The Manager (Listing/Compliance)
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), MUMBAI- 400 001
Scrip Symbol : KHAICHEM

Sub: Intimation of Credit Rating.

Dear Sirs,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are attaching herewith Credit Rating Press Release issued by India Ratings and Research. The rating has been affirmed at the same level.

This is for your information and further dissemination.

Thanking You,

Yours' faithfully,
for KHAITAN CHEMICALS AND FERTILIZERS LIMITED

KAMLESH JOSHI
Digitally signed by KAMLESH JOSHI
Date: 2022.10.18 18:42:03 +05'30'

(KAMLESH JOSHI)
Company Secretary & Senior General Manager

India Ratings Affirms Khaitan Chemicals and Fertilizers at 'IND A-'; Outlook Stable

Oct 18, 2022 | Fertilizers

India Ratings and Research (Ind-Ra) has affirmed Khaitan Chemicals and Fertilizers Limited's (KCFL) Long-term Issuer Rating at 'IND A-'. 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 limits (consortium)				INR2,100 (increased from INR1,700)	IND A-/Stable	Affirmed
Non-fund-based limits (consortium)				INR2,654.0 (increased from INR1,344.0)	IND A-/Stable/INDA2+	Affirmed
Term loan	-	-	October 2026	INR99.1 (reduced from INR112.5)	IND A-/Stable/IND A2+	Affirmed

Key Rating Drivers

Established Operations and Strong Market Presence: KCFL has an established market position in the single super phosphate (SSP) segment with around 9% market share over FY17-FY22. The company operates six manufacturing plants with a total manufacturing capacity of 1.13 million mtpa, across Gujarat, Rajasthan, Chhattisgarh, Uttar Pradesh and Madhya Pradesh, through which it caters to the markets of several states with over 3,000 distributors and a dealer network. The company also has a diversified product mix of SSP fertilisers, sulphuric acid and its derivatives as well as soya-based products, contributing around 70%/30%/0%, respectively, to the revenue in 1QFY23 (FY22: 88%/12%/0%; FY21: 83%/12%/3%). KCFL's sulphuric acid manufacturing capacity of 0.26 million mtpa provides backward integration for SSP manufacturing. KCFL has been able to increase its sales volumes to 0.53 million mt to FY22 from 0.33 million mt in FY18 by leveraging the brand recall for its SSP fertilisers.

Non-applicability of Increased NBS Rates Impact Profitability in 1QFY23, Improvement Likely from 2QFY23: KCFL reported revenue of INR2.1 billion in 1QFY23 (FY22: INR8.2 billion; FY21: INR4.8 billion; FY20: INR4.3 billion) with EBITDA of INR163 million (INR1,216 million; INR597 million; INR459 million) and EBITDA margins of 7.57% (14.76%, 12.27%, 10.51%). The improvement during FY22 was driven by: (1) a healthy product demand, (2) healthy operating leverage given better capacity utilisation, (3) a switchover by farmers to SSP from costly di-ammonium phosphate (DAP), and (4) the shortages witnessed in availability of DAP and other NPK fertilisers. However, the revised nutrient-based subsidy (NBS) rates were not made applicable on SSP during 1QFY23, forcing SSP manufacturers to increase retail selling price (RSP). KCFL was not able to fully pass on the increase in raw material prices through the increase in RSP as advance payments were already accepted in 4QFY22 for SSP supply during 1QFY23 at old prices, leading to a decrease in EBITDA during 1QFY23. However, as per the management of the company, starting 2QFY23, the company will be able to realise increased prices on SSP sale. Ind-Ra draws comfort from SSP sales volumes in the country have not decreased after manufacturers increased RSP post April 2022.

Credit Metrics Dependent on Subsidy Disbursements: KCFL's net leverage (net debt/EBITDA) increased to 2.77x in 1QFY23 (FY22: 1.3x; FY21: 1.6x) and the interest cover decreased to 3.82x (9.63x, 4.4x), on account of the decreased EBITDA and higher debt. Whereas, the leverage and interest coverage had improved in FY22 on account of a reduction in debt, led by lower outstanding subsidy dues. KCFL's debt stood at INR3.0 billion as of 1QFY23 (FY22: INR2.0 billion; FY21: INR0.9 billion), out of which INR2.1 billion was in form of working capital borrowings (INR1.2 billion; INR0.5 billion) and letter of credit acceptances were INR 0.7 billion(INR0.7 billion; INR0.2 billion). The increase in borrowings in 1QFY23 was on account of an increase in the subsidy outstanding, which forms major portion of total revenue (FY22: 53%; FY21: 29.3%, FY20: 29.0%, FY19: 25.9%). The trade receivables including subsidy as of 1QFY23 increased to INR2.1 billion (FY22: INR1.1 billion, FYE21: INR0.5 billion; FYE20: 0.7 billion). However, the subsidy days decreased to 60 for FY22 (FY21: 140; FY20: 215; FY19: 246). The overall working capital cycle days remained long despite reducing to 112 days during FY22 (FY18: 224 days).

The fertiliser business being seasonal in nature requires a significant amount of working capital to build inventory. Furthermore, a significant portion of the company's revenue are in form of subsidy. Any delay in the release of subsidy could result in increased working capital borrowings. However, the government's recent focus towards timely disbursement of subsidy is likely to keep the overall credit profile comfortable at FYE23.

Liquidity Indicator - **Adequate**: KCFL has a total fund based sanctioned limits of INR2.1 billion and non-fund-based sanctioned limits of INR2.65 billion. The use of the fund-based utilisation was 67 % and non-fund-based limits was 81 % on average for the past 12 months. The company has repayment obligations with respect to term loans amounting to INR58.8 million during FY23 and INR72 million in FY24. The company had INR471 million of unencumbered cash balance at end-FY22 (FYE21: INR3.3 million). Its cash flow from operations decreased to INR0.2 billion in FY22 (FY21: INR0.8 billion) on account of increased investments in working capital due to the increase in scale of operations driven by price rise and volume growth. Capex incurred during the year FY22 was INR148 million. The company expects to incur capex of INR300 million during the year FY23.

Low Capacity Utilisations, although Improving: KCFL's SSP sales volumes improved to 0.12 million tonnes in 1QFY23 (FY22: 0.53 million tonnes; FY21: 0.46 million tonnes) because of which the overall capacity utilisation improved to 52% (47%, 40%, 28%). Historically, the markets for SSP tend to be localised given there is no freight subsidy, accordingly the utilisation levels have been low. However, Ind-Ra expects an improvement in the utilisations, driven by high DAP prices and government's push towards substituting SSP for DAP.

Regulated Nature of Fertiliser Industry: KCFL operates in a regulated industry where the subsidy portion of the overall revenue is controlled by the government under the NBS scheme and the retail prices are market driven. KCFL's operations thus remain exposed to the timely fixation of subsidy by the government to factor in the volatility in raw material prices along with the timely release of subsidy which impact the short-term borrowings of the entity.

Profitability Exposed to Volatility in Input Prices: The EBITDA margins for KCFL are susceptible to price volatility in

rock phosphate and sulphuric acid, although the SSP is a deregulated fertiliser. However, Ind-Ra believes that during an event of a higher-than-expected increase in the raw material prices, nutrient rates under NBS scheme will be adjusted appropriately to ensure no increase in the farm gate prices and availability of fertilisers to farmers. This will lead to a continued demand for SSP as it entails stable EBITDA margins. Also, the company completely hedges its foreign currency payables stemming from imports of around 80% of its rock phosphate requirements.

Rating Sensitivities

Positive: A higher-than-expected increase in the plant utilisations coupled with higher-than-expected margins, and timely receipt of subsidy leading to a comfortable working capital cycle all on a sustained basis would be positive for the ratings.

Negative: A decline in the operating margins resulting in lower-than-expected EBITDA and/or a stretch in the working capital cycle and/or large debt-funded capital expenditure collectively leading to the net leverage remaining above 2.5x and tightening of liquidity all on a sustained basis could be negative for the ratings.

Company Profile

KCFL manufactures SSP and sulphuric acid with operations in Madhya Pradesh, Uttar Pradesh, Rajasthan, Chhattisgarh and Gujarat. The company has an installed capacity of 1.13 million MTPA of SSP and 0.26 million MTPA of sulphuric acid.

FINANCIAL SUMMARY

Particulars (INR million)	FY22	FY21
Revenue	8,237	4,871.5
EBITDA	1,216	597.7
Total debt (including acceptances)	2,048	974
Interest coverage (x)	9.63	4.41
Net debt/EBITDA (x)	1.30	1.62
Source: KCFL, 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.

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/Outlook	Historical Rating/Outlook
				31 December 2022
Long-Term Issuer Rating	Long-term	-	IND A-/Stable	IND A-/Stable
Term loan	Long-term	INR99.1	IND A-/Stable	IND A-/Stable
Fund-based working capital limit	Long-term/Short-term	INR2,100.0	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+

Non-fund-based working capital limit	Long-term/Short-term	INR2,654.0	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Term loan	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

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KCFL - Credit Rating

1 message

Pal, Paras <paras.pal@indiaratings.co.in> Tue, Oct 18, 2022 at 6:11 PM
To: "vishwajeetbahety@kcfl.in" <vishwajeetbahety@kcfl.in>, "kamleshjoshi@kcfl.in" <kamleshjoshi@kcfl.in>

Dear sir,

Please refer to the latest Rating Action in the link given below. The rating has been affirmed at the same level.

https://www.indiaratings.co.in/pressrelease/59760

Thanks
Paras

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