Login

India Ratings Downgrades Khaitan Chemicals and Fertilizers' Bank Facilities to 'IND BBB+'; Outlook Stable

Nov 06, 2023 | Fertilizers

India Ratings and Research (Ind-Ra) has downgraded Khaitan Chemicals and Fertilizers Limited's (KCFL) bank facilities to 'IND BBB+' from 'IND A-'. The Outlook is Stable. The instrument-wise rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits (consortium)	-	-	-	INR2,100	IND BBB+/Stable/INDA2	Downgraded
Non-fund-based limits (consortium)	-	-	-	INR2,654	IND BBB+/Stable/INDA2	Downgraded
Term loan	-	-	October 2026	INR99.1	IND BBB+/Stable	Downgraded

The downgrade reflects Ind-Ra's expectation of a continued pressure on KCFL's margins in FY24 owing to a lower-than-expected volume offtake of single super phosphate (SSP) fertiliser as competitiveness with di-ammonium phosphate (DAP) remains moderate, a marked revision in subsidy rates for 2HFY24 coupled with a limited ability to raise retail prices, leading to lower per tonne profitability. The same is likely to impact the credit metrics negatively in FY24. Further, the profitability will remain contingent upon the company's ability to manage efficient and price competitive procurement of key raw materials namely rock phosphate and sulphuric acid.

Key Rating Drivers

Margin Pressure to Continue in FY24: Post the subsidy rate revision of SSP fertiliser for 2HFY24, the subsidy rate reduced to INR3,540/metric tonne (mt) from INR6,872/mt in 1HFY24. Ind-Ra expects KCFL's EBITDA to continue to be under pressure as the prices of input materials have not reduced at a similar pace. The company could also suffer inventory losses on the channel inventory, which it has pushed to the dealers for the Rabi season. Furthermore, the low price differential between SSP and alternate-DAP, leaves limited pricing freedom with SSP players as two bags of SSP and one bag of urea can be replaced by one bag of DAP. KCFL's profitability remains dependent on the announcement of subsidy by the government of India (GoI) and the company's ability to efficiently procure input raw materials at competitive prices.

KCFL reported revenue of INR1.64 billion in 1QFY24 (FY23: INR8.9 billion; FY22: INR8.2 billion; FY21: INR4.8 billion; FY20: INR4.3 billion) with EBITDA of INR9 million (INR0.78 billion; INR1.21 billion; INR0.60 billion; INR0.46 billion) and EBITDA margins of 0.53% (8.77%; 14.76%; 12.27%; 10.51%). The price of key raw materials such as rock phosphate and sulphuric acid are linked to the global market and remain susceptible to changes in international prices and foreign exchange rates. As KCFL needs to maintain adequate inventory due to the seasonal nature of the fertiliser industry, the stocked inventory is exposed to inventory price risk, given the volatility in raw material prices. The de-stocking of high-priced inventories led to a significant erosion in the EBITDA margins in 1QFY24. Further, the exclusion of SSP from the revised rates and capping on its subsidy rates for FY23 led to a lower SSP sales volumes, against other competing fertilisers such as DAP.

Credit Metrics Likely to Remain Muted in FY24: Ind-Ra expects KCFL's net leverage (net debt/EBITDA) to remain elevated in FY24 led by the likely decline in EBITDA. However, as per Ind-Ra's discussion with the company, management is in discussions with the ministry on the rates and impact on SSP players, given the government's focus to shift part of imported DAP consumption to SSP. The net leverage increased to 4.11x in 1QFY24 on an annualised basis (FY23: 3.37x; FY22: 1.3x; FY21: 1.6x) and the interest coverage (operating EBIDTA/gross interest expense) decreased to 0.13x (4.03x; 9.63x; 4.4x), on account of the decrease in EBITDA and higher borrowings. KCFL's debt was INR2.57 billion at 1QFYE24 (FYE23: INR2.62 billion; FYE22: INR2.05 billion; FYE21: INR0.97 billion), comprising long-term borrowings of INR0.30 billion (INR0.32 billion; INR0.10 billion; INR0.19 billion), working capital borrowings of INR1.98 billion (INR1.89 billion; INR1.26 billion; INR0.59 billion) and letter of credit acceptances of INR0.29 billion (INR0.41 billion; INR0.69 billion; INR0.19 billion). The borrowings remain elevated on account of an increase in the subsidy outstanding of INR1.76 billion, which accounted for 42% of the total revenue in 1QFY24 (FY23: 46%; FY22: 53%; FY21: 29.3%). The trade receivables including subsidy increased to INR2.41 billion in 1QFY24 (FY23: INR2.09 billion; FY22: INR1.11 billion, FYE21: INR0.98 billion; FYE20: INR0.7 billion).

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 is in the form of subsidy. Any delay in the release of subsidy could result in increased working capital borrowings. The net working capital cycle remained elongated at 151 days in FY23 (FY22: 112 days; FY21: 135 days) with receivable period increasing to 86 days (49 days; 74 days) due to the high subsidy receivables, and the inventory holding period to 119 days (114 days; 102 days), marginally offset by an increase in the payable period to 53 days (51 days; 41 days).

Established Operations and Market Presence in SSP Segment: KCFL has an established market position in the SSP segment with around 9% market share over FY17-FY23. The company operates six manufacturing plants with a total manufacturing capacity of 1.13 million million tonnes per annum (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 strong dealership network. The company also has a diversified product mix of SSP fertilisers (1QFY24: accounted for 89.25% of the operating revenue; FY23: 89.29%; FY22: 87.82%; FY21: 83.08%), sulphuric acid and its derivatives (10.73%; 10.62%; 12.13%; 13.71%), and soya-based products (0.02%; 0.10%; 0.05%; 3.21%). KCFL has a large in-house production capacity of 0.27 million mtpa for sulphuric acid, which enables backward integration for SSP manufacturing. Further, the company uses by-product steam of the manufacturing process to run up to 4.32MW power unit, leading to savings in power expenses.

Liquidity Indicator - Adequate: The average use of the fund-based and non-fund-based limits was 81% and 68%, respectively, during the 12 months ended September 2023. The company has repayment obligations with respect to term loans amounting to INR75.6 million, each, during FY24 and FY25. Furthermore, the unencumbered cash balance at 1QFYE24 was INR1.7 million (FYE23: INR1.55 million; FYE22: INR472 million; FYE21: INR3.3 million). Its cash flow from operations continued to be negative and declined further to INR1.2 billion in FY23 (FY22: negative INR0.2 billion; FY21: INR0.6 billion) on account of high working capital requirements due to high subsidy receivables and inventories. It incurred capex of INR327 million in FY23 for debottlenecking. The company does not expect any additional capex due to sufficient available capacity for SSP production.

Capacity Utilisation to Remain Moderate in FY24: Ind-Ra expects KCFL's volumes to remain at around 0.4mt for FY24 (1QFY24: 0.1mt; FY23: 0.47mt; FY22: 0.53mt; FY21: 0.46mt) and the overall capacity utilisation to remain at 45% (46%; 44%; 47%; 40%). Historically, the markets for SSP tend to be localised, given there is no freight subsidy and accordingly, the utilisation levels have been low. However, Ind-Ra expects the improvement in the utilisation levels would be driven by the government's push towards substituting SSP for DAP and the DAP availability.

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 Nutrient Based Subsidy scheme and the retail prices are market driven. Thus, KCFL's operations 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 company.

Profitability Exposed to Volatility in Input Prices: KFCL's EBITDA margins are susceptible to volatility in rock phosphate and sulphuric acid prices; although, SSP is a deregulated fertiliser. The company's profitability would remain dependent on the subsidy announcement under the Nutrient Based Subsidy scheme and the government's policies to push SSP fertiliser among farmers. This will continue to weigh on the demand for SSP fertiliser and KFCL's EBITDA margins. The company continues to manage its currency risk by completely hedging 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 capacity utilisation coupled with a higher-than-expected margins and the timely receipt of subsidy, leading to a comfortable working capital cycle and the net leverage reducing below 2.0x, all on a sustained basis, would be positive for the ratings.

Negative: A decline in the margins resulting in a lower-than-expected EBITDA and/or a stretch in the working capital cycle and/or a large debt-funded capex leading to the net leverage remaining above 3.0x 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 11,30,000mt of SSP and 2,70,600mt of sulphuric acid. It also has 1,400 tonnes per day of soya bean crushing capacity and 100TDP soya bean edible oil refinery located at Ratlam (Madhya Pradesh).

FINANCIAL SUMMARY

Particulars (INR million)	FY23	FY22
Revenue	8,878	8,237
EBITDA	779	1,216
Total debt (including acceptances)	2,626	2,048
Interest coverage (x)	4.03	9.63
Net debt/EBITDA (x)	3.37	1.30
Source: KCFL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

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 Rating/Outlook	Historical Rating/Outlook		
				22 September 2023	18 October 2022	31 December 2022
Issuer rating	Long-term	-	-	WD	IND A-/Stable	IND A-/Stable
Term loan	Long-term	INR99.1	IND BBB+/Stable	-	IND A-/Stable	IND A-/Stable
Fund-based working capital limit	Long-term/Short-term	INR2,100.0	IND BBB+/Stable/IND A2	-	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+
Non-fund-based working capital limit	Long-term/Short-term	INR2,654.0	IND BBB+/Stable/IND A2	-	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

Contact

Primary Analyst
Paras Pal
Senior Analyst
India Ratings and Research Pvt Ltd
DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002
124 6687241
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Rushabh Shah
Senior Analyst

Chairperson
Vivek Jain
Director
+91 124 6687249

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

DISCLAIMER

all times. India ratings’ code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the code of conduct section of this site.