

Title

India Ratings Downgrades Khaitan Chemicals and Fertilizers’ Bank Facilities to ‘IND BBB’/Stable; Rates Additional Term Loans

Brief

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

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-		-	INR2,100	IND BBB/Stable/IND A3+	Downgraded
Non-fund-based working capital limit	-		-	INR2,654	IND BBB/Stable/IND A3+	Downgraded
Term loan	-		31 October 2026	INR99.1	IND BBB/Stable	Downgraded
Term loan	-		31 October 2026	INR60.0	IND BBB/Stable	Assigned

Analytical Approach

Ind-Ra continues to take a standalone approach to arrive at KCFL’s ratings.

Detailed Rationale of the Rating Action

The downgrade reflects a decline in KCFL’s profitability following a decrease in subsidy as per Nutrient Based Subsidy(NBS) rates from INR6,872/tonne in 2HFY24 to INR3,540/tonne, leading to a decline in EBITDA and a stretch in working capital cycle, thereby resulting in deterioration in the credit metrics.

Post the decline in subsidy rates, the company witnessed inventory buildup as the company tried to pass on decrease in subsidy to the customers, leading to a decline in sales volume during 2HFY25. The decline in volumes along with loss on stock already in the channel led to an EBITDA loss of INR302 million during FY24 (1HFY25: INR17 million; FY23: INR779 million; FY22: INR1,216 million). Furthermore, the decline in sales volume led to buildup of inventory, leading to a stretch in the working capital cycle. Net working capital cycle increased to 404 days during FY24 (1HFY25: 316 days; FY23: 232 days). The total inventory increased to INR2.8 billion in FY24 (FY23: INR 2.5 billion) before declining to INR2.2 billion in 1HFY25. The net working capital increased to INR3.8 billion in FY24 (1HFY25: INR3.5 billion; FY23: INR3.5 billion; FY22: INR2.2 billion). The increased working capital requirement was funded through an increase in the debt (including acceptance) to INR3,257 million at 1HFY25 (FY24: INR3,301 million; FY23: INR2,626 million), leading to deterioration in the credit metrics. The interest coverage (EBITDA/Interest Expense) declined to 0.11x during 1HFY25 (FY24: not meaningful; FY23: 4.04x). Ind-Ra expects KCFL to have exhausted all high priced stock by 1HFY25. However, 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.

List of Key Rating Drivers**Strengths**

- Established operations and market presence in SSP segment

Weaknesses

- Margins to remain under pressure in FY25

- Credit metrics deteriorated during FY24 and likely to remain under pressure during FY25
- Capacity utilisation to remain moderate in FY24; although likely to increase during FY25
- Profitability exposed to volatility in input prices

Detailed Description of Key Rating Drivers

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-FY24. The company operates six manufacturing plants with a total manufacturing capacity of 1.13 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 (FY24: accounted for 87.02% of the operating revenue; FY23: 89.29%; FY22: 87.82%; FY21: 83.08%), sulphuric acid and its derivatives (9.79%; 10.73%; 10.62%; 12.13%; 13.71%). KCFL has a large in-house production capacity of 0.27 million mtpa for sulphuric acid, which enables backward integration for SSP manufacturing. Furthermore, the company uses by-product steam of the manufacturing process to run up to 4.32MW power unit, leading to savings in power expenses.

Margins to Remain Under Pressure in FY25: KCFL reported an EBITDA loss of INR302 million in FY24 (FY23: profit of INR779 million; FY22: profit of INR1,216.0 million). The EBITDA losses in FY24 were on account of i) inventory losses on channel inventory suffered during FY24 on account a decline in the subsidy to INR3,540/metric tonne (mt) (1HFY24: INR6,872/mt) and ii) a decline in sales volumes due to the increase in price of SSP to absorb some of the losses suffered owing to the decline in subsidy rates. However, the EBITDA improved marginally to INR17.4 million in 1HFY25 supported by an improvement in the subsidy rates to INR4,804 mt, but remained subdued. Ind-Ra expects the EBITDA to improve further during FY25 on the back of an improvement in the subsidy rates to INR5,121/mt for 2HFY25 and stable raw material prices. However, may remain below levels seen during FY23-24. Furthermore, the profitability may remain impacted due to a low price differential between SSP and alternate-Diammonium phosphate(DAP), leaving limited pricing freedom with SSP players as two bags of SSP and one bag of urea can be replaced by one bag of DAP.

Capacity Utilisation to Remain Moderate in FY25: KCFL's SSP sales volumes improved to 0.23 mt during 1HFY25 (FY24: 0.34mt; FY23: 0.47mt; FY22: 0.53mt; FY21: 0.46mt). However, KCFL's overall capacity utilisation declined to 23% in 1HFY25 (FY24: 39%; FY23: 44%; FY22: 47%; FY21: 40%) as KCFL sold SSP stock built up during 2HFY24. The decline in sales volume during FY24 commensurate with the decline in total SSP production in India. As per the Ministry of Fertilizer's data, the total SSP produced in the country declined to 4.45mt in FY24 before improving to 2.36mt during 1HFY25 (FY23: 5.47mt; FY22: 5.41mt; FY21: 4.94mt). Ind-Ra understands that decline in volumes during FY24 was on account of i) an increase in the retail price of SSP, led by the decline in NBS rates that did not commensurate with the price of raw material in international market, and ii) low price differential between SSP and alternate-DAP. Ind-Ra expects some improvement in SSP sales volume on account of shortage of DAP being witnessed during FY25.

Credit Metrics Likely to Remain Muted in FY25; Although Likely to Improve during FY26: Ind-Ra expects KCFL's net leverage (net debt/EBITDA) to remain elevated in FY25 led by the likely lower EBITDA. The net leverage increased to 93.8x (annualised) in 1HFY25 (FY24: not meaningful; FY23: 3.37x; FY22: 1.3x; FY21: 1.6x) and interest coverage (operating EBITDA/gross interest expense) decreased to 0.11x (not meaningful; 4.03x; 9.63x; 4.4x). KCFL's debt was INR3.3 billion at 1HFY25 (FY24: INR3.3 billion; FY23: INR2.62 billion; FY22: INR2.05 billion; FY21: INR0.97 billion), comprising long-term borrowings of INR0.42 billion (INR0.24 billion; INR0.32 billion; INR0.10 billion; INR0.19 billion), working capital borrowings of INR2.4 billion (INR 2.8 billion; INR1.89 billion; INR1.26 billion; INR0.59 billion) and letter of credit acceptances of INR0.399 billion (INR 0.21 billion; INR0.41 billion; INR0.69 billion; INR0.19 billion). The borrowings increased on account of the decline in EBITDA earned during FY24 and 1HFY25. The total debt includes INR0.4 billion borrowed from related parties outstanding at 1HFY25 (FY24: INR0.22 billion; FY23: nil).

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: The 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.

Liquidity

Adequate: KCFL's cash flow from operations turned positive to INR444 million in 1HFY25 (FY24: negative INR554 million; FY23: negative INR882 million) on account of release of cash from working capital. During FY24, the cash flow from operations was negative on account of the EBITDA losses. The net working capital was INR3.5 billion during 1HFY25 (FY24: INR3.8 billion; FY23: INR3.4 billion). The average use of the fund-based and non-fund-based limits was 89% and 38%, respectively, during the 12 months ended December 2024. During FY24-1HFY25, KCFL's liquidity was supported by debt provided by related parties (1HFYE25: INR400 million; FYE24: IN221 million). The company has term loan obligations of INR75.6 million, each, during FY25 and FY26. Furthermore, the unencumbered cash balance stood at INR0.9 million at 1HFYE25 (FYE24: INR0.5 million; FYE23: INR1.55 million; FYE22: INR472 million; FYE21: INR3.3 million).

Rating Sensitivities

Positive: A higher-than-expected increase in the capacity utilisation and a higher-than-expected margins, along with an improvement in the working capital cycle leading to net leverage reducing below 3.0x, all on a sustained basis, would be positive for the ratings.

Negative: A continued pressure on the EBITDA margins and/or a continued stretch in the working capital cycle and/or a large debt-funded capex leading to the net leverage exceeding 4.0x and tightening of liquidity, all on a sustained basis, could be negative for the ratings.

Disclosures for CE Rating

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Disclosures for Provisional Rating

ESG Issues

Any Other Information

About the Company

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).

Key Financial Indicators

Particulars (INR million)	FY24	FY23	
Revenue	5,358	8,878	
EBITDA	-ve 302	779	
Total debt (including acceptances)	3,301	2,626	
Interest coverage (x)	NM	4.03	
Net debt/EBITDA (x)	NM	3.37	

Source: KCFL, Ind-Ra

Applicable Criteria

- Evaluating Corporate Governance
- Short-Term Ratings Criteria for Non-Financial Corporates
- Corporate Rating Methodology
- The Rating Process

Status of Non-Cooperation with Previous Rating Agency

NA

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook*			
				6 Nov 2023	22 September 2023	18 Oct 2022	31 Dec 2022
Issuer Rating	Long-term		-	-	WD	IND A-/Stable	IND A-/Stable
Fund Based Working Capital Limit	Long-term/Short-term	INR 2,100	IND BBB/Stable / IND A3+	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	INR 2,654	IND BBB/Stable / IND A3+	IND BBB+/Stable / IND A2		IND A-/Stable / IND A2+	IND A-/Stable / IND A2+
Term loan	Long-term	INR 159.1	IND BBB/Stable	IND BBB+		IND A-/Stable	IND A-/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund Based Working Capital Limit	Low
Non-Fund Based Working Capital Limit	Low
Term loan	Low

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

Annexure

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