Gujarat State Fertilizers and Chemicals Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	300.00	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	4,100.00	CARE A1+	Reaffirmed
Commercial paper	1,000.00	CARE A1+	Reaffirmed

Details of facilities/instruments in **Annexure-1**.

Rationale and key rating drivers

The ratings of Gujarat State Fertilizers & Chemicals Limited (GSFC) continue to derive strength from its established and integrated operations in fertilisers and industrial chemical products, with a diversified product profile and a dominant market position in most of its products and the strategic investment towards backward integration for securing the supply of key raw materials. The ratings also derive comfort from the improved performance of its fertiliser division during FY22 and FY23 (refers to the period from April 1 to March 31) largely on the back of an increase in the subsidy rates by the Government of India (GoI). Also, the ratings draw strength from its comfortable leverage and strong liquidity arising from the substantial realisation of its past subsidy dues in FY21 and its regular receipt thereon.

The long-term rating, however, continues to be constrained by the risks associated with the regulated nature of the fertiliser industry; the volatile raw material prices with high reliance on subsidy budget of the GoI, which can potentially result in an elongation of the operating cycle, and in turn, increase the reliance on short-term borrowings, fluctuation in forex rates, and the cyclicality associated with other industrial products.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Significant diversification of GSFC's operations to other fertilizer products along with significant increase in its scale and earning return on capital employed (ROCE) above 25% on a sustained basis.
- Improved profitability margin in both fertilizer & industrial products division leading to overall PBILDT margin of more than 12% on a sustained basis.
- Effective management of its working capital requirements with timely receipt of subsidy from GoI resulting in contraction in its operating cycle to less than 90 days.

Negative factors:

- Moderation in PBILDT margin to less than 7% on a sustained basis.
- Moderation in its market position in fertilizer business.
- Significant build-up of subsidy receivables leading to elongation in operating cycle beyond 200 days on a sustained basis which can have an adverse impact on its liquidity.
- Major debt-funded capex or increase in working capital borrowings to fund large subsidy receivables, leading to a deterioration in its total debt/PBILDT to more than 3x on a sustained basis.
- Any adverse changes in the regulations governing the fertiliser industry and/or unforeseen material liability arising w.r.t any long-pending disputed matters.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted the 'Consolidated' analytical approach for GSFC, as there are strong operational and financial linkages among GSFC and its subsidiaries. Also, GSFC has actively started retail operations through its wholly owned subsidiary, viz, GSFC Agrotech Limited, through its retail stores. The list of companies consolidated has been placed in **Annexure-6**.

Outlook: Stable

The 'Stable' outlook on the rating reflects that the rated entity shall continue to maintain its dominant position in most of its products alongwith maintaining its highly comfortable financial risk profile.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key strengths

Well-established and integrated operations along with a diversified product profile

GSFC's product range includes fertiliser products (manufacturing) like di-ammonium phosphate (DAP), ammonium sulphate (AS), ammonium phosphate sulphate (APS), urea, and industrial chemical products like caprolactam, nylon-6 (N-6), melamine, MEK oxime, etc. Furthermore, GSFC trades in DAP, urea, ammonia, methanol and other fertilisers, as well as industrial products.
GSFC is the sole domestic manufacturer of melamine and largest domestic manufacturer of Caprolactum and Nylon-6 in India.
GSFC's operations are marked by a high level of vertical integration across both, the fertilisers and industrial products divisions. GSFC meets part of its ammonia and sulphuric acid requirement for the manufacturing of fertilisers and a few industrial products through captive production. Furthermore, the captive production of caprolactam is used for manufacturing Nylon-6. The integrated manufacturing facilities attempt better utilisation of the available resources.

Improved performance of the fertiliser division over past two years ended FY23 supported by a hike in subsidy rates; aiding its overall profitability

The performance of GSFC's fertiliser division improved, marked by increase in total operating income (TOI) of division by 44% on y-o-y basis to ₹8,840 crore during FY23 (PY: ₹6,150 crore). However, the division suffered a decline in sales volumes by around 8% on account of the elevated raw material prices. Its profit before interest and taxes (PBIT) margin from the fertilizer segment improved from 6.29% during FY21 to 11.28% during FY22 and further to 16.51% during FY23 owing to a high subsidy booking. Accordingly, GSFC's profitability marked by PBILDT margin increased substantially to above 14% over past two years ended FY23 (FY21: 7.64%) on the back of peak prices of industrial products up to 9MFY22 and increase in subsidy rates during FY22 and FY23.
The performance of the fertiliser division moderated during Q1FY24, marked by a TOI of ₹1,524 crore (₹2,279 crore in Q1FY23) with a PBIT margin of 6.98% (21.52% in Q1FY23). Going forward, CARE Ratings expects the revenue from operations and profitability to moderate in FY24 as compared with FY23 levels on the back of decrease in the input prices and resultant decrease in fertilizer prices.

Significant moderation in the performance of industrial products in FY23, albeit expected to improve

The performance of GSFC's industrial products division moderated in FY23 after improving significantly in FY22, marked by a TOI of ₹2,528 crore (FY22: ₹2,935 crore) and its segment PBIT of ₹5 crore (FY22: ₹524 crore) on account of softening of finished product prices and upward movement in prices of raw materials like benzene and natural gas. However, the PBIT margin of the division has improved to around 1.75% during Q1FY24 with TOI of ₹539 crore. Accordingly, CARE Ratings notes that the performance of its industrial products division is likely to improve in FY24 with expectation of pickup in demand from downstream industries resulting in improved demand for melamine and improved caprolactam-benzene spread.

Comfortable leverage and debt coverage indicators

GSFC had almost nil leverage as on March 31, 2023, owing to a steady realisation of subsidy dues from the GoI. This resulted in comparatively low working capital requirements, and thereby, lower interest costs. Furthermore, the company is expected to fund its ongoing capex majorly from its available liquidity which is likely to result in continued comfortable leverage and debt coverage indicators going forward. Further, as indicated by the company's management, as of September 2023-end, the company has continued to maintain sizeable liquidity.

Strategic investments towards backward integration mainly to secure steady supplies of raw material and power

To secure the steady supply of phosphoric acid (PA) (the availability of which remains volatile) in order to increase the capacity utilisation of its complex fertiliser portfolio at its Sikka plant, GSFC had bought 15% stake in Tunisian Indian Fertilizers, S.A. (TIFERT). Through this investment, GSFC is entitled to receive 180,000 metric tonne (MT) of PA per annum at the market price. During FY23, GSFC received 50,690 MT of PA (FY22: 63,808 MT) from TIFERT. Furthermore, to add potassium (K) to its fertilizer portfolio and to capture a larger market share in NPK fertilizers, GSFC has also invested in a Canada-based company – Karnalyte Resources Inc. (Karnalyte; engaged in the business of exploration and development of high-quality agricultural and industrial potash and magnesium products). GSFC has signed an off-take agreement with Karnalyte for 20 years for the purchase of approximately 350,000 tonne of potash per year from the project. During FY23, GSFC invested an amount around ₹20 crore in the rights issue of the company increasing its equity stake from 38.73% during FY22 to 47.73% during FY23.
GSFC also benefits from its wind farm with a capacity of 152.80 MW, captive gas-based power plant of 30 MW and a solar power plant of 10 MW. GSFC also has investments in Gujarat Industries Power Co Ltd (GIPCL; rated 'CARE AA-; Stable/CARE A1+'),

whereby virtue of being a promoter, GSFC has the availability of 38 megawatt (MW) of power out of GIPCL's gas-based power plant of 145 MW.

Planned capex under progress albeit expected to be funded largely from available liquidity and internal accruals

GSFC has proposed to undertake a few projects, which include an ammonium sulphate plant (400 metric tonne per day (MTPD)), an HX crystal project (20 MTPD), a solar power project (15 MW), phosphoric acid (600 MTPD) and sulphuric acid plant (1,800 MTPD) at Sikka and sulphuric acid (400 MTPD) at Baroda along with revamping of its urea plant at Vadodara to meet NUP 2015 energy consumption norms and improve its production capacity. Further, as part of the green initiatives of the GoI for clean energy-related actions and reducing the country's dependence on natural gas carbon print, GSFC has considered setting up a green hydrogen project (1.44 kilo tonne per annum (KTPA)) at its Vadodara unit.

The total capex cost for these projects is expected to be around ₹2,800 crore to be executed over next four years viz., FY24-FY27 which is expected to be funded from available liquidity/internal accruals and debt shall be availed on need basis only.

GSFC has a few major capex plans under the deliberation stage, which include melamine plant (40,000 MTPA), development of polymer complex including Phosphate Rich Organic Manure, development of Dahej complex and development of fibre unit; but nothing has been finalized yet. GSFC has significant headroom for undertaking some debt-funded capex, with a comfortable overall gearing. However, CARE ratings will continue to monitor the undertaking of any of these major capex plans with a high reliance on the debt.

Liquidity: Strong

The liquidity of GSFC is strong, marked by healthy expected cash accruals against low term debt repayment obligations and negligible utilisation of its fund-based limit in the last 12 months ended July 2023. Subsidy receivables from GoI had went up by end FY23 to ₹1661 crore vis-à-vis ₹676 crore as at end-FY22. However, there was significant receipt of subsidy during 5MFY24 leading to subsidy receivables declining to a level of around ₹230 crore in August 2023, further improving its liquidity. It had cash and fixed deposits (largely parked with banks) of around ₹1,431 crore as on March 31, 2023. It also had substantial quoted equity investments to the tune of ₹4,021 crore as on March 31, 2023.

GSFC has sanctioned fund-based working capital limits of ₹300 crore with a consortium of lenders and it has ₹1,110 crore of working capital limits with a set of lenders outside the consortium. Furthermore, it has sanctioned non-fund-based working capital limits of ₹3,000 crore, which is utilised for the import of its raw material requirements.

Key weaknesses

Regulated nature of the fertiliser industry and inherent delays associated with the release of the subsidy from the GoI

The profitability of fertiliser manufacturers is influenced by the regulations governing various types of fertilisers, wherein, the government controls the fertiliser prices and provides subsidies. The quantum of subsidy receivables and delays associated with the receipt of the same inherently impacts the liquidity of the fertiliser industry, albeit differs with the type of fertilizer. With release of large amount of subsidy payments in FY21, subsidy receivables have declined significantly leading to significant decline in debt level of the fertilizer companies. Also, with the sharp increase in raw material prices witnessed in FY22 and FY23, government increased the subsidy budget allocation and has been regularly releasing the subsidy payments thereon. In the Union Budget for FY23, the GoI had initially provided for a total fertilizer subsidy of ₹1.05 lakh crore, which was subsequently enhanced by another ₹1.10 lakh crore in May 2022 looking at the elevated prices of key raw materials and natural gas, thereby taking the total fertilizer subsidy budget for FY23 to an all-time high of ₹2.15 lakh crore. Subsequently with moderation in raw material prices during current year, government has decreased subsidy budget allocation in FY24 to ₹1.75 lakh crore.

The shortfall in the subsidy budget amid the volatile raw material prices may lead companies to resort to higher short-term borrowings to fund extended subsidy receivables. Regular intervention by the government to increase the subsidy budget, NPK nutrient rates, and minimum selling prices (MSP) help the sector to work in a regulated manner. The government is also planning to implement the second phase of DBT and is planning to explore the option of directly transferring the subsidy to the farmers' accounts, which can be beneficial for the fertilizer companies. However, it will have a substantial burden on the government finances, and accordingly, the rollout of the second phase of DBT can take some time.

Event risks

GSFC had provided a sponsor guarantee for US$ 41.1 million (proportionate to the shareholding of 15%) towards the borrowings of TIFERT. In March 2017, TIFERT requested a re-scheduling of the instalment due to its lenders. However, while the same was under discussion, an acceleration notice was served on TIFERT by its lenders on March 28, 2017. The loan instalment was immediately paid by TIFERT along with interest on March 31, 2017. However, on April 4, 2017, the lenders followed up with a 'call' notice on TIFERT's shareholders towards the guaranteed amount. TIFERT has paid the subsequent instalments due as per the schedule and the guarantee provided by GSFC expired on March 31, 2018. As articulated by the company, last instalment shall be due in March 2024 end and TIFERT will be in a position to meet its future debt obligations and it is unlikely that an event of payment under the guaranteed amount will arise on GSFC.

Environment, social and governance (ESG) risk assessment:

Risk factors	Compliance and action by the company
Environmental	Out of 70 MW of annual power requirement, approximately 35% is met from renewable source of energy and company is further expanding its renewable energy capacities. As part of Extended Producer Responsibility, 70% of the total plastic waste generated was collected by GSFC during FY23 Of the total waste generated by the company, during FY23, 87% of waste was recovered through recycling, reusing or other recovery options.
Social	GSFC has launched E Vehicle subsidy scheme whereby at nominal interest rate of just 2% loan is granted for purchase of E- vehicle to the employees. In addition to the loan for purchase of an E-scooter/E-bicycle, the Company extends a subsidy for purchase of E-scooter and e- bicycle. Till date, around 220 employees have taken benefit of the said scheme. Employees have 24*7 access to township medical centre where non-occupational medical health services are provided. Lost time injury frequency rate for employees was 0.16 / one million hours worked and for workers it was 0.17/ one million hours worked. 100% of the company's permanent workers are represented through associations/trade unions.
Governance	During FY23, 75% of GSFC's board comprised independent directors. The company has a dedicated investors' grievance redressal mechanism and healthy disclosures.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Fertilizer
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry
Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Fertilizers & Agrochemicals	Fertilizers

Incorporated in 1962, GSFC is a public sector undertaking promoted by the Government of Gujarat (GoG). GoG, through its undertaking, Gujarat State Investment Ltd (GSIL), owns 37.84% of the paid-up capital of the company. The chairman and managing director of the company are appointed by GoG.
GSFC operates in two segments: (i) fertilizers and (ii) industrial products, with integrated manufacturing facilities enabling it to benefit from synergies by manufacturing a host of fertilizers and industrial products. Fertilizers contribute around 60-70% to the TOI, whereas industrial products contribute a balance of 30-40%. GSFC manufactures fertilizers like DAP, AS, APS and urea, and industrial products like caprolactam, nylon-6, melamine, MEK oxime, and polymers, among others.

Brief Financials (₹ crore)-Consolidated	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	9,097	11,378	2,112
PBILDT	1,337	1,601	194
PAT / (Net loss)	899	1266	112
Overall gearing (times)	0.00	0.00	NA
PBILDT Interest coverage (times)	136.78	106.53	102.95

A: Audited, UA: Unaudited, NA: Not available; Financials are reclassified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to Annexure-2

Covenants of the rated instruments/facilities: Please refer Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Standalone)*	-	-	-	7-364 days	1000.00	CARE A1+
Fund-based - LT-Cash credit	-	-	-	-	300.00	CARE AA+; Stable
Fund-based - ST-Others	-	-	-	-	1100.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	3000.00	CARE A1+

*There is no CP o/s as on September 22, 2023

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (20-Dec-22) 2)CARE AA+; Stable (27-Sep-22)	1)CARE AA+; Stable (28-Sep-21)	1)CARE AA+; Stable (29-Sep-20)
2	Non-fund-based - ST-BG/LC	ST	3000.00	CARE A1+	-	1)CARE A1+ (20-Dec-22) 2)CARE A1+	1)CARE A1+ (28-Sep-21)	1)CARE A1+ (29-Sep-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
						(27-Sep-22)		
3	Commercial paper-Commercial paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (20-Dec-22) 2)CARE A1+ (27-Sep-22)	1)CARE A1+ (28-Sep-21)	1)CARE A1+ (29-Sep-20)
4	Fund-based - ST-Others	ST	1100.00	CARE A1+	-	1)CARE A1+ (20-Dec-22) 2)CARE A1+ (27-Sep-22)	1)CARE A1+ (28-Sep-21)	1)CARE A1+ (29-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments / facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - ST-Others	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender Details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-6: List of entities getting consolidated with GSFC

Sr. no.	Name of Companies/Entities	Percentage holding as on March 31, 2023 (%)
1	GSFC Agrotech Ltd	100.00%
2	Gujarat Port & Logistics Company Ltd.	60.00%
3	Vadodara Jalsanchay Pvt Ltd.	60.00%
4	Vadodara Enviro Channel Limited	28.57%
5	Gujarat Green Revolution Company Limited	46.87%
6	Karnalyte Resources Inc (Canada)	47.73%

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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