



नेशनल फर्टिलाइजर्स लिमिटेड
(भारत सरकार का उपक्रम)

कॉर्पोरेट कार्यालय : ए-11, सेक्टर-24, नोएडा - 201301
जिला गौतम बुद्ध नगर (उ.प्र.),

दूरभाष : 0120 2412294, 2412445, फ़ैक्स : 0120-2412397



NATIONAL FERTILIZERS LIMITED

(A Govt. Of India Undertaking)

Corporate Office : A-11, Sector-24, Noida-201301,

Distt. Gautam Budh Nagar (U.P.)

Ph.: 0120-2412294, 2412445, Fax : 0120-2412397

Ref No. NFL/SEC/SE/

Dated: 27.04.2020

Manager (Listing), National Stock Exchange Limited, Registered Office (Exchange Plaza), C-1, Block-G, BandraKurla Complex, Bandra (E), Mumbai-400051.	General Manager, Department of Corporate Services, BSE Limited, Floor 25th, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400001.
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Sub: Intimation of Review of Credit Rating.

Dear Sir,

Pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015, we hereby inform that India Ratings & Research Pvt. Limited vide its communication dated April 27, 2020, has assigned the following ratings to the Company:

Instrument Type	Rating Limit	Rating Outlook	Rating Action
	(in Billion)		
Fund based working capital	INR 60.00	IND AA-/Stable/IND A1+	Long-term rating downgraded and Short-term rating affirmed
Non-fund-based working capital	INR 20.00	IND A1+	Affirmed
Long-term loans - External Commercial Borrowings (ECB)	INR 0.57(reduced from INR 1.56)	IND AA-/Stable	Downgraded
Proposed fund-based working capital**	INR 2.14	Provisional IND AA-/Stable/ Provisional IND A1+	Long-term rating downgraded and Short-term rating affirmed
Commercial paper (CP)*	INR 60.00	IND A1+	Affirmed
CP*	INR 10.00	IND A1+	Assigned

* Within the fund-based working capital limits, CP and fund-based working capital limits are interchangeable with total borrowing capped at lower of the drawing power or the sanctioned fund-based limits



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****The ratings are provisional and shall be confirmed upon the sanction and execution of loan documents for the above facility by NFL to the satisfaction of Ind-Ra.**

This is for your information and record.

Thanking You,

Yours faithfully,
For National Fertilizers Limited
Sd/-
(Ashok Jha)
Company Secretary

Encl: As above

India Ratings Downgrades National Fertilizers to 'IND AA-/Stable; Rates Additional CP

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By Ashish Agrawal

APR 2020

India Ratings and Research (Ind-Ra) has downgraded National Fertilizers Limited's (NFL) Long-Term Issuer Rating to 'IND AA-' from 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Fund-based working capital	-	-	-	INR60	IND AA-/Stable/IND A1+	Long-term rating downgraded and Short-term rating affirmed
Non-fund-based working capital	-	-	-	INR20	IND A1+	Affirmed
Long-term loans - External Commercial Borrowings (ECB)	-	-	September 2020	INR0.57 (reduced from INR1.56)	IND AA-/Stable	Downgraded
Proposed fund-based working capital**	-	-	-	INR2.14	Provisional IND AA-/Stable/ Provisional IND A1+	Long-term rating downgraded and Short-term rating affirmed
Commercial paper (CP)*	-	-	7-365 days	INR60	IND A1+	Affirmed
CP*	-	-	7-365 days	INR10	IND A1+	Assigned

* Within the fund-based working capital limits, CP and fund-based working capital limits are interchangeable with total borrowing capped at lower of the drawing power or the sanctioned fund-based limits

**The ratings are provisional and shall be confirmed upon the sanction and execution of loan documents for the above facility by NFL to the satisfaction of Ind-Ra.

Analytical approach: Ind-Ra continues to incorporate government support owing to sovereign ownership while arriving at the ratings.

KEY RATING DRIVERS

Net Adjusted Leverage Deteriorates: The downgrade reflects the continued deterioration in NFL's net leverage adjusting for subsidy receivables (net debt less subsidy receivables/operating EBITDA) and capital grant receivables which have historically been negative (9MFY19: negative 0.8x; FY19: negative 0.1x; FY18: negative 1.7x) but increased to 1.4x during 9MFY20. The positive net leverage indicates NFL's borrowings have exceeded the subsidy outstanding with the gross debt increasing to INR64.9 billion at end-9MFY20 (FY19: INR64.6 billion; FY18: INR30.6 billion) despite a decline in subsidy receivable outstanding to INR56.7 billion (INR65.6 billion; INR39 billion). Ongoing capex totalling INR9.09 billion for energy efficiency, a reduction in other current liabilities, higher inventory and low operating profitability led to the additional borrowings.

Subsidy Receivables Remain High: The downgrade also incorporates NFL's continued higher-than-expected subsidy receivables. The urea subsidy budget for the industry has been reduced to INR478 billion for FY21 from INR536 billion in FY20. The overall subsidy budget for urea players could get exhausted much earlier than initially envisaged by Ind-Ra on account of i) the start of new fertiliser units with high selling price ii) the potential revival of sick fertiliser units iii) rupee depreciation iv) a lower-than-expected reduction in the pooled gas price v) the limited quantum of special banking arrangement, which stayed in the range of INR70-INR100 billion over FY17-FY20 and vi) limited fiscal space with the government in FY21. Given this backdrop, Ind-Ra believes the subsidy outstanding could remain elevated, resulting in a drop in interest coverage and higher borrowings than envisaged earlier. NFL's interest coverage (operating EBITDA/gross interest expense) stood at 1.4x in 9MFY20 (9MFY19: 2.7x; FY19: 2.6x) and Ind-Ra expects it to stay below 2x in FY21.

Recent Notification to Impact EBITDA: The Department of Fertiliser's notification in March 2020 cancelled the earlier provision of minimum fixed cost (MFC) of INR2,300/tonne (t) effective 2 April 2014, the date from which the Modified New Pricing Scheme (NPS)-III policy was notified. However, the notification has allowed the reimbursement of additional fixed cost of INR350/t (additional INR150/t for old manufacturing plants) which NFL was already booking in the balance sheet but was not receiving. The net impact of the above two changes is a claw-back of INR3.3 billion for the period 2 April 2014 to 31 December 2019 for NFL's Vijaipur-I

plant as the fixed cost for this plant stood at INR1,285/t before the Modified NPS-III was notified. The entire urea industry's profitability on production beyond the re-assessed capacity (RAC) has also been impacted as one of the elements for the calculation of subsidy income is the MFC. The fixed cost of the Vijaipur-I unit is the lowest in the industry and it has come down to INR1,635/t from INR2,300/t for urea production up to RAC and has also impacted the contribution from urea production beyond RAC.

Overall, this notification has resulted in net lower subsidy income of INR4.5 billion over 1QFY15-3QFY20 for NFL. Ind-Ra expects a negative EBITDA impact of INR0.6 billion annually for production up to RAC resulting from the above two changes. NFL, along with other impacted fertiliser companies, is contesting this change in policy and any positive development on this front could help the company maintain higher EBITDA.

EBITDA to Decline in FY21: Beginning April 2020, the revised energy efficiency norms (5.5Gcal/t for Vijaipur plants and 6.5Gcal/t for Nangal, Panipat and Bhatinda plants) are applicable. **Ind-Ra expects** NFL's EBITDA to remain lower than Ind-Ra's earlier expectations for FY21, given the delay in the energy efficiency capex implementation timelines to 1QFY21 from January 2020 due to the ongoing nation-wide lockdown. Additionally, muted urea prices internationally impact the profitability beyond RAC. This, coupled with the impact of the aforementioned Department of Fertiliser's notification, will result in NFL's EBITDA being lower than earlier envisaged. NFL's EBITDA declined 29.8% yoy to INR4.2 billion in 9MFY20. The manufactured fertiliser segment's EBIT margin declined to 2.6% in 9MFY20 from 6.1% in 9MFY19 while that for the trading segment improved marginally to 6.7% from 6.5%. The key reason for the decline in manufacturing margins was the fall in the operating efficiency and higher energy consumption affected by the planned and unplanned shutdowns of NFL's multiple plants over 1QFY20-2QFY20. Given that NFL had nearly INR8 billion of traded goods inventory, the adverse movement in the international prices of nitrogen-phosphorous-potash fertiliser could have impacted the profitability during 4QFY20.

Continued Government Support: The government of India holds 74.71% stake in NFL. The government had supported NFL earlier by providing capital grants for converting low sulphur heavy stock/fuel oil-based urea plants into gas-based plants. NFL is also expecting government support for the energy efficiency capex undertaken by the company, which it expects to complete by end-1QFY21. NFL is looking at either a relaxation in the energy efficiency norms applicable on the urea plants at Nangal, Panipat and Bhatinda from FY21 to FY25 or support in the form of one-time capital subsidy which could help it recover its investments. Furthermore, NFL has requested the Department of Fertiliser for providing suitable policy dispensation for its Vijaipur-I plant to recover investments being made in energy reduction schemes. Moreover, a bulk of NFL's debt is working capital in nature, which is backed by subsidy receivables. Ind-Ra believes the government will continue to support NFL as it is a strategically-important entity in the fertiliser sector owing to its size, market share and distribution network.

Liquidity Indicator - Adequate: NFL's cash and bank balances stood at INR0.2 billion at end-9MFY20 (FYE19: INR0.2 billion; FYE18: INR0.08 billion). It has access to secured and unsecured fund-based working capital limits of INR133 billion for which the average utilisation stood 46% for the 12 months ended February 2020. The gross debt stood at INR74.1 billion at end-February 2020, including long-term loans of INR7.7 billion, CP of INR60 billion and short-term working capital debt of INR6.4 billion. NFL has access to low-cost banking finance, CP and inter-corporate deposits, due to its sovereign ownership. In addition, NFL has also applied to avail the benefit of moratorium on some of its debt facilities in order to enhance its liquidity during the nationwide lockdown. However, its working capital cycle is long (9MFY20: 201 days, FY19: 252 days, FY18: 166 days), a common characteristic of the urea manufacturing industry owing to large-pending urea subsidy receivables as well as higher inventory days (47 days, 59 days, 28 days). Ind-Ra expects the working capital cycle to have remained elongated in FY20 as well. Additionally, NFL has term debt repayments of INR1.4 billion due in FY21 and FY22 each. NFL's cash flow from operations stood at INR4.76 billion at end-1HFY20 (FYE19: negative INR32.2 billion, FYE18: INR14.9 billion) and is likely to have improved further in 2HFY20, given the significant increase in fertilisers trading operations. Ind-Ra expects the overall liquidity to remain comfortable in the short-to-medium term.

COVID Impact to be Limited on the Sector: Ind-Ra expects that the nation-wide lockdown would be marginally credit negative for the fertiliser sector in the near term. This is because it could result in a demand slowdown and negatively impact the profitability of the sector entities. However, despite the intermittent disruptions in global supply chain and the likely price increase in the imported raw material, the raw material availability will remain adequate. Ind-Ra also does not expect any major impact on the working capital cycle or on the liquidity availability.

RATING SENSITIVITIES

Positive: An improvement in the operating profitability from the core operations, coupled with a shorter working capital cycle leading to a decline in the debt and an improvement in the net adjusted leverage and the gross interest coverage, all on a sustained basis, will be positive for the ratings.

Negative: Further delays in the completion of energy-efficiency capex, continued long working capital cycle, coupled with further deterioration in the operating performance, and/or the weakening of support from the government leading to the net adjusted leverage (after adjusting fertiliser subsidy and capital grant receivables) exceeding 2.5x, will be negative for the ratings.

COMPANY PROFILE

Incorporated in 1974, NFL is a leading urea manufacturer in India, with around 16% market share at FYE19. It operates five urea plants: one in Panipat (0.51mmt), one in Bathinda (0.51mmt), one in Nangal (0.48mmt) and two in Vijaipur (0.86mmt each). The company produced 3.9mmt of urea (119% of reassessed capacity) in FY19. NFL has been appointed by the government of India for the marketing of imported urea from November 2018 till March 2021 for three ports namely Tuna, Paradip and Vizag and has begun the marketing of this urea.

FINANCIAL SUMMARY

Particulars (INR billion)	9MFY20	FY19	FY18
Net revenue	99.5	122.4	89.5

Operating EBITDA	4.2	8.2	5.4
Operating EBITDA margin (%)	4.2	6.7	6.0
Gross interest expense	3.1	3.2	1.9
Net income	0.7	3.0	2.1
Debt	64.9	64.6	30.6
Source: NFL			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	13 November 2019	14 February 2019	21 March 2018
Issuer rating	Long-term	-	IND AA-/Stable	IND AA/Negative	IND AA/Stable	IND AA/Stable
Fund-based working capital	Long-/short-term	INR62.14	IND AA-/Stable/IND A1+	IND AA/Negative/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+
Non-fund-based working capital	Short-term	INR20	IND A1+	IND A1+	IND A1+	IND A1+
Long-term loans	Long-term	INR0.57	IND AA-/Stable	IND AA/Negative	IND AA/Stable	IND AA/Stable
CP	Short-term	INR70	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

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

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.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

[Corporate Rating Methodology](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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