February 29, 2024

Deepak Fertilisers & Petrochemicals Corporation Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based term loan	733.00	1,058.00	[ICRA]AA- (Stable); reaffirmed/assigned
Long-term – Fund-based cash credit	150.00	150.00	[ICRA]AA- (Stable); reaffirmed
Short-term – Non-fund based limits	845.00	975.00	[ICRA]A1+; reaffirmed/assigned
Long-term/Short-term - Unallocated limits	228.00	3.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	**1,956.00**	**2,186.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Deepak Fertilisers and Petrochemicals Corporation Limited (DFPCL) and its subsidiary Mahadhan AgriTech Limited (MAL) due to their managerial, operational and financial linkages, collectively referred to as the Group/consolidated entity.

The ratings reaffirmation factors in the company's diversified product portfolio comprising phosphatic fertilisers and industrial chemicals, and its strong market position in the industrial chemical business, especially in technical ammonium nitrate (TAN), nitric acid and iso propyl alcohol (IPA). The ratings also factor in DFPCL's high financial flexibility.

DFPCL's cash generation had witnessed robust growth in FY2023 supported by healthy contribution margin on sale of industrial chemicals and fertilisers. However, the profitability and cash generation from operations moderated in 9M FY2024 owing to the softening of the contribution margins on sale of industrial chemicals majorly TAN, impact of lowering of subsidy on phosphatic fertilisers (~Rs. 268 crore in 9M FY2024) and losses (~Rs. 87 crore) on account of stabilisation of the recently commissioned ammonia plant. The working capital intensity has also increased for the company as it procures natural gas for manufacturing of ammonia which entails lower credit period (~15-20 days) compared to the credit period available on purchase of ammonia of around 180 days in the past.

While the cash generation and the overall credit metrics are expected to moderate in FY2024, the company's performance is expected to improve going forward. The performance improvement is expected to be driven by stable contribution margins on sale of industrial chemicals, better performance of the fertiliser segment as the one-time impact witnessed in FY2024 is not expected to recur in FY2025 and improvement in the contribution from the ammonia plant under Performance Chemiserve Limited [PCL rated [ICRA]A+(Stable)/[ICRA]A1; [ICRA]AA-(CE)(Stable)]. ICRA also notes that the ammonia plant under PCL was commissioned in August 2023 and is operating at healthy utilisation levels. The plant will benefit the company in terms of backward integration, as ammonia is a key raw material for production of industrial chemicals and fertiliser produced by the company. The presence of medium-term contracts and a recently signed long-term contract for procuring natural gas mitigates raw material risk for the company to a large extent.

The ratings are, however, constrained by the agro-climatic and regulatory risks in the fertiliser business and the vulnerability of the chemical division's profitability to the inherent price cyclicality along with the volatility in natural gas prices. The ratings are also constrained by the large debt-funded capex plan being undertaken by the company i.e., the technical ammonium nitrate (TAN) project at Gopalpur with a capital outlay of nearly Rs. 2,200 crore and the nitric acid plant at Dahej with a capital outlay of Rs. 1,950 crore. The large capex plan exposes the company to project execution risks and timely commissioning of these projects and within the proposed capital outlay will remain a key monitorable going forward. DFPCL is reorganising its operations under fertiliser and chemicals business separately. On a consolidated basis, ICRA does not expect the reorganisation to have any financial impact, as it will help in streamlining the company's operations. However, ICRA will continue to monitor the developments on this front.

Further, ICRA also notes the appeal filed by MAL in response to the receipt of assessment and demand orders for the block period (assessment year 2013-2014 to assessment year 2019-2020) pursuant to the search operation conducted by the income tax department in November 2018, resulting in a demand of Rs. 486 crore (including interest). ICRA will continue to monitor the development on this front.

The Stable outlook takes into account the company's established position in both the chemical and the fertiliser segments and ICRA's expectations that the company's credit profile will benefit in the medium term from the favourable demand, shift in product mix towards more value-added products and savings from backward integration from the ammonia project.

Key rating drivers and their description

Credit strengths

Strong market position in domestic industrial chemical business – DFPCL has a strong market position in the existing chemical businesses of TAN, nitric acid and iso-propyl alcohol (IPA). It is one of the leading players of TAN in the domestic market, supported by the superior product quality of low-density ammonium nitrate (LDAN), which commands a premium over AN-melt manufactured by domestic players and imported fertiliser-grade AN. The company is one of the leading manufacturers of IPA and concentrated nitric acid (CNA) in the domestic market. It is also expanding its capacities in TAN, which would allow it to maintain its dominant position over a longer term. With backward integration in production of ammonia, the company should benefit in terms of improving its competitiveness in these products further.

Diversified portfolio with shift towards value-added products - DFPCL has a broad-based product mix, derived from two streams using natural gas or ammonia as the primary feedstock. The company's ability to suitably modify its product mix in response to the changes in market conditions partially mitigates the risks associated with cyclicality. The company has also been increasing value-added products in the chemical and fertiliser segments and the trend is expected to continue in the near to medium term.

Favourable demand prospects - The domestic demand outlook for the company's key products such as TAN, IPA, nitric acid remains healthy. The demand for TAN will be driven by the coal mining and infrastructure sectors, while demand for nitric acid would be supported by planned capacity addition in the downstream segments. The IPA market is expected to maintain a healthy growth, led by the growing end-user industry, namely the pharma sector, apart from dyes and paints. The demand for the fertiliser segment is also expected to remain healthy as the country remains dependent on imports to meet the phosphatic fertiliser requirements. Additionally, the recent policy changes which allow the companies to earn up to 10% of profit before tax margin, will allow the company flexibility in setting the retail prices for fertilisers. The same should bode well for the segment as it will allow the company to pass on the input price impact to the end consumers.

Healthy financial flexibility - The Group has a healthy financial flexibility, reflected in its fund-raising and refinancing ability. In the past, it had raised funds through rights issues, QIP which was subscribed by marquee domestic and international financial institutional investors and from multilateral agencies. Further, in January 2024, pledge on promoter shareholding has been entirely released and hence, there is no encumbrance of any kind on promoters' holdings.

Credit challenges

Profitability vulnerable to cyclicality in input prices - The company's profitability remains exposed to the cyclicality in input prices and the ability to pass on the same to the customers. Further, any availability issues of key raw materials may also have an adverse impact on the company's operations. However, the risk has been partly mitigated by supplier diversification. Going forward, with the increasing backward integration in ammonia and firm gas supply tie-ups, the availability risk will be mitigated further.

Exposure to regulatory risks - The company's fertiliser business is exposed to agro-climatic risk and operates in a regulated environment. The selling prices of its products remain dependent on the subsidy allocated by the GoI to the various nutrients. DFPCL, thus, remains exposed to any sharp variation in the subsidy levels as announced under the Nutrient Based Subsidy (NBS) scheme and timeliness of subsidy payout by the GoI, apart from any other regulatory intervention on the product prices. ICRA also notes the regulatory overhang over additional claims by GAIL towards domestic gas supply. The matter is sub-judice.

Large debt-funded capex - The company has recently commissioned its 5,10,000-MTPA ammonia plant at Taloja in August 2023 with a capital outlay of Rs. 4,030 crore till September 2023 and will be incurring another Rs. 470 crore, including purchase of certain stores and spares within FY2024. The plant has a take-or-pay agreement with Group companies for 100% production which shall not be less than 4,50,000 MTPA, which mitigates the demand risk for the project. The company has also tied up medium term and long-term natural gas supply contracts which will ensure raw material availability for the plant. The plant has stabilised and is operating at healthy utilisation levels. The company is also setting up a TAN project in Gopalpur with a capital outlay of around Rs. 2,200 crore and nitric acid plant in Dahej with a capital outlay of Rs. 1,950 crore. The TAN project will be commissioned by October 2025 and nitric acid project by end of Q3 FY2026. The debt requirement for the TAN project is around Rs. 1,541 crore and the financial closure for the same has been achieved. The company is yet to achieve financial closure for the nitric acid project and has received a sanction for a bridge loan of Rs. 700 crore, which will later get converted in the project loan once it is sanctioned. The offtake risk for the nitric acid project remains modest, given the long-term offtake agreement tying up 65% of the capacity with a marquee specialty chemicals player in India. However, the company remains exposed to project execution risks given the large size of these projects and their timely completion within the planned capital outlay will remain a key monitorable.

Environmental and Social Risks

The industry in which the company operates and the products it deals with involves environmental risks from their exposure to waste, pollution and toxicity. These have necessitated the company to increase its investments to meet the evolving and tighter regulatory standards. DFPCL is committed to the safety and preservation of environment and believes in using natural and manmade resources in an optimal and responsible manner and ensure the sustainability of resources by reducing, reusing, recycling and managing waste. As per the disclosures made, the company shall continuously seek to improve its environmental performance by adopting cleaner production methods, promoting use of energy efficient and environment friendly technologies. Energy consumption is constantly monitored at the plants to achieve an overall reduction in its use. The processes are also reviewed and modified to reduce the requirement of water from time to time.

Rising awareness about the use of chemical fertilisers in farming and the growing clamour for organic produce can impact fertiliser offtake. However, the productivity in organic farming remains low at present and thus the near-term risk to fertiliser offtake is low. Going forward, in a scenario of technological breakthroughs resulting in organic alternatives with equal or better productivity can pose a significant threat to fertiliser offtake, although the threat remains long term in nature.

Liquidity position: Adequate

At a consolidated level, the company's liquidity position remains adequate led by healthy accrual generation supported by healthy financial flexibility of the company. The company has a comfortable cushion available in the form of unutilised working capital limits as indicated by the average working capital utilisation levels which stood at 39% for fund-based limits in the 12-month period ended on December 31, 2023. DFPCL had a healthy cash balance (including investment) of ~Rs. 1,320 crore on its books as on September 30, 2023 (~Rs. 1,100 crore as on March 31, 2023). It is expected to incur balance capex for ammonia, TAN and nitric acid projects during the next two years, funded through a mix of debt, equity infusion and internal accruals. As on September 30, 2023, the company had an outstanding external long-term debt of Rs. 3,175 crore. However, due to the long repayment tenure of the term loans, the annual debt repayments are likely to remain modest (~Rs. 122 crore in H2 FY2024, ~Rs. 389 crore in FY2025 and ~Rs. 535 crore in FY2026). The company has strong banking relationships and can also raise funds from the debt and equity markets, as demonstrated in the past. With funding tied up for the projects with a comfortable moratorium period and long tenure, its cash flows are anticipated to be adequate to meet the repayment obligations.

Rating sensitivities

Positive factors – A healthy improvement in cash accruals on a sustained basis, aided by the timely completion of new projects within the expected capital outlay, leading to improvement in the credit metrics could lead to a rating upgrade. A specific credit metric that could lead to an upgrade is a net debt/OPBDITA of less than 1 times, on a sustained basis.

Negative factors – Decline in profitability or a stretch in working capital position of existing operations or any material time and cost overruns in capex projects, leading to a deterioration of the debt metrics on a sustained basis could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertilizers Rating Methodology for Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of Deepak Fertilisers & Petrochemicals Corporation Limited with its subsidiary, Mahadhan AgriTech Limited as the latter is an integral part of DFPCL's operations. ICRA has considered the consolidated financials of Deepak Fertilisers & Petrochemicals Corporation Limited. As on September 30, 2023, the company had six subsidiaries, four step-down subsidiaries and one JV, that are enlisted in Annexure-2

About the company

DFCPL was incorporated in 1979 and the Group is involved in the manufacturing of nitro-phosphate (NP), nitrogen-phosphorous-potassium (NPK) and bentonite sulphur fertilisers and industrial chemicals such as technical ammonium nitrate (TAN), methanol, nitric acid and iso-propyl alcohol (IPA). The manufacturing facilities are at Taloja, Dahej, Srikakulam and Panipat. It also owns a commercial mall in Pune. DFPCL's promoters hold a 45.45% stake in the company with the rest being held by public and institutional investors. DFPCL's fertiliser and chemical businesses are inter-linked because of the common raw materials used and synergies in the manufacturing processes. The capability of the business segments to attract a different set of investors and strategic partners to scale up the size and operations is significant and hence, in FY2018, DFPCL demerged its fertiliser and TAN businesses into a wholly-owned subsidiary, Mahadhan AgriTech Limited (MAL, erstwhile Smartchem Technologies Limited (STL)), with effect from January 1, 2015.

Key financial indicators (audited)

DFPCL – Consolidated	FY2022	FY2023	9M FY2024*
Operating income	7663.3	11300.7	6589.8
PAT	687.5	1220.9	237.6
OPBDIT/OI	18.3%	19.7%	12.9%
PAT/OI	9.0%	10.8%	3.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.2	-
Total debt/OPBDIT (times)	1.9	1.7	-
Interest coverage (times)	9.0	11.5	2.9

*Source: Company, ICRA Research; * Unaudited; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Feb 29, 2024	Dec 06, 2022	July 29, 2022	July 13, 2021	June 14, 2021	April 14, 2020
1	Term loans	Long-term	1058.00	248.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Cash credit	Long-term	150.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-fund based limits	Short-term	975.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
4	Unallocated	Long-term/ Short-term	3.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-
5	Non-convertible debenture	Long-term	-	-	-	-	-	-	-	[ICRA]A+ (Stable) withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term – Term loan	Simple
Short-term – Non-fund based limits	Very Simple
Long-term/ Short-term – Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based: Term Loan I	FY2018	NA	FY2028	115.00	[ICRA]AA-(Stable)
NA	Fund Based: Term Loan II	FY2018	NA	FY2028	133.00	[ICRA]AA-(Stable)
NA	Proposed term loans	NA	NA	NA	810.00	[ICRA]AA-(Stable)
NA	Fund Based: Cash Credit	NA	NA	NA	150.00	[ICRA]AA-(Stable)
NA	Non-Fund Based Limits	NA	NA	NA	975.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	3.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mahadhan AgriTech Limited (erstwhile known as Smartchem Technologies Limited)	100.0%	Full Consolidation
Deepak Nitrochem Pty Limited	100.0%	Full Consolidation
Deepak Mining Services Private Limited (DMSPL)	100.0%	Full Consolidation
SCM Fertichem Limited	100.0%	Full Consolidation
Ishanya Realty Corporation Limited	100.0%	Full Consolidation
Ishanya Brand Services Limited	100.0%	Full Consolidation
Yerrowda Investments Limited	85.0%	Equity Method
Mahadhan Farm Technologies Limited [Subsidiary of MAL]	100.0%	Full Consolidation
Performance Chemiserve Limited [Subsidiary of MAL]	100.0%	Full Consolidation
Platinum Blasting Services Pty Limited (PBS) [Subsidiary of MAL]	65.0%	Full Consolidation
Australian Explosives Pty Limited (AME) [Subsidiary of PBS]	65.0%	Full Consolidation

Source: Company

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