Rashtriya Chemicals & Fertilizers Ltd — Rating update 6 Oct Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	**CARE A1+** (Reaffirmed; Highest short-term credit quality)
Outlook	Reaffirmed (Current: Strong Liquidity / Previous: Stable)
Key Drivers of Change	• **Revenue Growth:** TOI rose 9.4% to □18,406 Cr in FY26, driven by a 27% surge in fertilizer trading. • **Margin Expansion:** PBILDT margins improved to 4.43% (FY26) and 6.1% (Q1FY27) due to superior energy efficiency and chemical segment realizations. • **Energy Efficiency:** Thal unit operating at 5.7–5.85 Gcal/MT vs revised norm of 5.984 Gcal/MT, buffering against retrospective subsidy hits. • **Strategic Importance:** 75% GoI ownership provides "Navratna" status and high financial flexibility for debt raising.
Rated Instruments	Commercial Paper: □**3,000 Cr**
Key Observations	• **Market Leadership:** Holds ~7% share in domestic Urea production with 91-92% capacity utilization. • **Subsidy Drag:** Subsidy receivables spiked 52% to □**3,925 Cr** in FY26, forcing higher working capital debt. • **Energy Norm Hit:** Retrospective revision of energy norms (April 2025) resulted in a □**172 Cr** adverse impact. • **Chemical Upside:** Industrial chemical PBIT margins surged to **42.4%** in Q1FY27, acting as a major profitability hedge. • **Capex Heavy:** Ongoing projects total **>**□**3,000 Cr** (NPK Thal: □1,400 Cr; Ammonia revamp: □1,200 Cr). • **JV Commitment:** Significant equity infusion of □**1,070 Cr** required for Talcher Fertilizers over FY27-FY28. • **Leverage Trend:** Overall gearing increased to **0.81x** (FY26) from 0.58x (FY25) due to subsidy delays.
Investor Impact	• **Dilution Risk:** Board has approved a □**1,500 Cr FPO**; while credit-positive for deleveraging, it poses near-term EPS dilution risk. • **Margin Outlook:** Energy efficiency capex will improve long-term competitiveness, but short-term margins depend on gas price pass-through. • **Growth:** NPK project (1,200 TPD) commissioning in Q1FY28 is the next major revenue catalyst. • **Leverage:** Debt levels to remain elevated (~1.0x gearing) until capex cycle peaks in FY28.
Agency / Cross Analysis	**Same Agency:** Rating maintained at A1+ for 3 consecutive years. While operational efficiency has improved (Interest coverage 2.05x → 2.76x), CARE highlights a rising reliance on short-term debt to fund subsidy delays. **Conclusion: Improvement** in operational fundamentals and profitability, but **Deterioration** in working capital cycle and debt levels.
Final Inference	**Real Operational Improvement:** The shift toward NPK fertilizers and chemical segment profitability reduces Urea-subsidy dependence. However, the 52% jump in receivables makes the stock sensitive to GoI budget allocations and FPO timing.