December 21, 2020

Shree Pushkar Chemicals & Fertilisers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Previous Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	42.00	42.00	[ICRA]A+ (Stable); Reaffirmed
Fund Based Limits	1.50	1.50	[ICRA]A+ (Stable); Reaffirmed
Non-Fund Based Limits	36.82	36.82	[ICRA]A1; Reaffirmed
Total	**80.32**	**80.32**	

**Instrument details are provided in Annexure-1*

Rationale

The rating is based on a consolidated view of Shree Pushkar Chemicals and Fertilisers Limited (SPCFL) and its wholly owned subsidiary, Kisan Phosphates Private Limited (KPPL). The basis for taking a consolidated view is the close operational, management and financial linkages between SPCFL and KPPL. Both SPCFL and KPPL operate in the fertiliser segment, share a common management and close financial ties.

The ratings reaffirmation takes into account the healthy financial profile of SPCFL, characterised by healthy profitability and return indicators as well as low reliance on external borrowings resulting in comfortable gearing levels. The rating continues to factor in the cost competitiveness of SPCFL, supported by its fully-integrated zero-discharge operations in the dyes and dye-intermediate business segment. The rating continues to favourably factor in the long track record of SPCFL in the business as well as the extensive experience of the promoters in this line of business. ICRA notes that in April 2020, SPCFL completed the acquisition of Madhya Bharat Phosphates Private Limited (MBPPL) with 1.5 Lakh MTPA production capacity of Single Super Phosphate (SSP) at a total cost of ~Rs. 28 crore which was funded entirely from internal accruals. With the acquisition of MBPPL, whose manufacturing facilities are located in Madhya Pradesh, the company will expand its geographical reach. Additionally, with the outlook for the dyes and dyes intermediate segment being muted owing to the Covid pandemic, the acquisition would also negate the impact on the revenues to some extent besides diversifying the sales mix. The ratings also take into account favourable demand outlook for fertilisers business.

The ratings are, however, constrained by the vulnerability of the company’s profitability to adverse fluctuations in the cost of raw materials as well as intense competitive pressures in the industry. The ratings also take into account the agro-climatic and regulatory risks associated with the fertiliser business and the susceptibility of its profitability margins to foreign exchange fluctuations. The company’s operations are exposed to any delays in the receipt of subsidy from the Government of India (GoI) for its fertiliser business, especially since it plans to upscale its fertiliser business.

The company’s operating income has grown steadily at a CAGR of 8.7% to Rs. 346.3 crore in FY2020 from Rs. 210 crore in FY2014 owing to the addition of new products like DCP (Di-calcium phosphate), H-acid, sulphuric acid, single super phosphate (SSP) and SC as well as increasing capacity utilisation. In H1 FY2020, demand for dyes and intermediaries remained low due to pandemic induced lockdown which led to decline in revenues by 19% on y-o-y basis and moderation in operating profitability to 10.4%. The debt levels increased over the last two years due to increase in working capital intensity as well as acquisition of KPPL. Nonetheless, the gearing was low at 0.1 time as on September 30, 2020.

ICRA notes that the company is undertaking a capacity expansion of dye intermediates for a total capex of Rs 105-110 crore (of which about Rs 85-90 crore has been incurred till September 30, 2020) which exposes the company to project execution risks. Nonetheless, the project is being funded entirely through internal accruals, and accordingly the company's gearing and debt coverage metrics are expected to remain comfortable.

ICRA further notes that due to ongoing Covid-19 pandemic, the company's manufacturing plants were closed from March third week to April owing to the lockdown. Even after the lockdown was lifted, the company could not run its plants at full capacity due to shortage of labour till June 2020. Further, since textile industry was adversely impacted due to the pandemic, demand for dyes and intermediaries has remained subdued. However, the company has been experiencing significant improvement in demand lately due to China+1 strategy being implemented by overseas companies. Further, fertiliser segment has witnessed robust growth in revenues in H1 FY2021 due to healthy demand driven by good monsoons.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that SPCFL will continue to benefit from its established track record of operations, healthy financial risk profile and commitment to conservative financial policies.

Key rating drivers and their description

Credit strengths

Established track record in the dye and dye intermediates business - SPCFL enjoys an established track record in the dye and dye intermediates business as well as a strong customer profile. The extensive experience of the promoters in this business also provides comfort against any marketing related risks. Furthermore, SPCFL enjoys locational advantages arising from its proximity to raw material sources and end-user industries.

Completely integrated operational structure - SPCFL is advantageously placed vis-à-vis its peers as it has a zero-discharge unit and is cost competitive due to fully integrated operations in the dyes and dye-intermediate business segment, which enables it to maintain healthy profitability levels. Moreover, the company continues to benefit as demand shifts to India due to closure of plants in key producing regions as a result of stringent pollution control norms.

Healthy financial profile - The company's profitability levels and return indicators have remained healthy. The company continues to maintain healthy cash accruals and low gearing levels, which strengthens its financial position. The liquidity position remains healthy as reflected by low utilisation of the working capital bank limits.

Credit challenges

Vulnerability to input price fluctuations – The company's operating profitability remains exposed to adverse fluctuations in the cost of raw materials as well as to any revisions in import duty. Furthermore, SPCFL is exposed to the intense competitive pressures in the industry.

Regulatory and agro-climatic risk associated with the fertiliser business - The agricultural sector in India remains vulnerable to the vagaries of monsoons as the area under irrigation remains low, exposing the fertiliser sector's sales and profitability to volatility. The fertiliser segment, being highly regulated, also remains vulnerable to changes in Government regulations, which could affect the company's financial profile. Further, the profitability margins of the fertiliser business are vulnerable to volatile raw material prices and foreign exchange fluctuations.

High working capital intensity of the business – The company's debtor days remain high on account of the nature of its business. Apart from that, delay in the receipt of subsidy for SSP sales also drove the increase in SPCFL's working capital intensity, although the past trend of subsidy recovery mitigates the risk for the company.

Liquidity position: Adequate

SPCFL's liquidity is adequate given that its cash flow from operations has been positive for most fiscals, supported by its healthy profitability levels. Though there is expected to be some decline in cash accruals due to weakness in the dyes and dyes intermediates segment, nevertheless, these are expected to remain healthy. Accordingly, the liquidity position remains comfortable given the healthy cash flows and limited long-term debt repayment obligations. Further, the company has sizeable unutilised working capital bank limits of ~Rs. 40 crore in addition to cash and liquid investment of ~Rs. 44.2 crore as on September 30, 2020, which support its liquidity profile.

Overall, ICRA expects SPCFL to be able to meet its near-term commitments through internal sources of cash. In addition, the company has healthy financial flexibility to raise debt at low cost from financial institutions.

Rating sensitivities

Positive triggers – ICRA could upgrade SPCFL's rating if the company demonstrates significant increase in its scale of operations while maintaining healthy operating margins and working capital intensity.

Negative triggers – Negative pressure on the rating could emerge if the company undertakes a sizeable debt funded capital expenditure or acquisition, which impacts its capital structure and/or liquidity, or in case of a reduction in profitability owing to an economic slowdown. Additionally, any deterioration in the company's working capital cycle impacting its cash flows and liquidity may also warrant a downgrade. Negative pressure on rating could emerge if the Total Debt/OPBITDA exceeds 1.75 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology on Fertilisers Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings of SPCFL, ICRA has considered the consolidated financials of the subsidiary company, KPPL. As on March 31, 2020, the company had a subsidiary, which is enlisted in Annexure-2.

About the company

Shree Pushkar Chemicals and Fertilisers Limited (SPCFL) was incorporated on March 29, 1993 by Mr. Punit Makharia as Shree Pushkar Petro Products Limited. The company essentially produces dyestuffs and dye intermediates, and fertilisers like SSP and SC, and chemicals like sulphuric acid and DCP, i.e., cattle feed. The promoters ventured into this business with trading activities and used to import dye intermediates before selling them in the domestic market, mainly in Maharashtra and Gujarat. However, in FY1999, they ventured into production and set up a manufacturing facility with a single product plant for Gamma Acid at MIDC, Lote Parshuram, in Maharashtra. Over the years, the company has expanded its activities into manufacturing complimentary and allied products like K Acid, Vinyl Sulphone, Acetanilide, Meta Uriedo Aniline and R Salt. The company's operations are largely integrated, and it has added a few products through backward integration or by utilising the byproducts from its existing operations. In September 2017, the company acquired Kisan Phosphates Private Limited (KPPL), with its manufacturing facility at Hisar (Haryana). In April 2020, the company acquired Madhya Bharat Phosphates Private Limited (MBPPL) with its manufacturing facilities at Deewanganj and Meghnagar in Madhya Pradesh.

About the subsidiary (KPPL)

Incorporated on August 13, 2012, KPPL manufactures SSP, DCP, soil conditioner (SC) and sulphuric acid. KPPL's manufacturing plant is at Hisar district in Haryana, which had started commercial operations in October 2014. KPPL's Haryana plants benefits from its location by being centrally situated, in the close vicinity of rich agricultural states like Punjab, Himachal Pradesh and Uttar Pradesh. KPPL has the necessary license for selling SSP in all the aforesaid states, and thus has the potential to market its products in all the four states. In September 2017, SPCFL acquired 100% shares of KPPL for a consideration of Rs. 9.02 crore, in addition to other long-term liabilities aggregating to Rs. 25.13 crore, thus making it a fully-owned subsidiary of SPCFL.

As per H1 FY2020 provisional estimates, SPCFL reported a net profit of Rs.8.4 crore on an OI of Rs. 140.7 crore, against a net profit of Rs.35.7 crore on an OI of Rs.346.3 crore in FY2020 on a consolidated basis.

Key financial indicators (Consolidated)

	FY2019 (Audited)	FY2020 (Audited)	H1 FY2021 (Provisionals)
Operating Income (Rs. crore)	451.9	346.3	140.7
PAT (Rs. crore)	40.8	35.7	8.4
OPBDIT/ OI (%)	14.8%	14.5%	10.4%
RoCE (%)	18.7%	13.0%	7.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4	0.3
Total Debt/ OPBDIT (times)	0.7	1.0	1.3
Interest Coverage (times)	18.1	23.7	15.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018	
					Dec-21-2020	Sep-23-2019	Jan-31-2019	Dec-13-2017	Oct-31-2017
1	Cash Credit	Long-Term	42.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund Based Limits	Long-Term	1.50	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non-fund Based Limits	Short-Term	36.82	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	42.00	[ICRA]A+ (Stable)
NA	Standby Letter of Credit	NA	NA	NA	01.50	[ICRA]A+ (Stable)
NA	Letter of Credit/ Bank Guarantee/ Off balance exposure	NA	NA	NA	36.82	[ICRA]A1

Source: SPCFL

Annexure-2: List of entities considered for consolidated analysis of SPCFL

Company Name	Ownership	Consolidation Approach
Kisan Phosphates Private Limited	100%	Full Consolidation

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