October 31, 2017

Shree Pushkar Chemicals & Fertilisers Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	42.00	[ICRA]A reaffirmed; outlook revised from Stable to Positive
Fund-based - SLC	1.50	[ICRA]A reaffirmed; outlook revised from Stable to Positive
Fund-based – Term Loans	0.02	[ICRA]A(Stable) Withdrawn
Non-fund based – Letter of Credit/Bank Guarantee/Off balance exposure	36.82	[ICRA]A1 reaffirmed
Total	**80.32**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) and the short-term rating of [ICRA]A1 (pronounced ICRA A one) outstanding on the bank limits of Shree Pushkar Chemicals & Fertilisers Limited (SPCFL)[1] aggregating to Rs. 80.32 crore[2]. The long-term rating of [ICRA]A outstanding on the Rs. 0.02 crore term loans has been withdrawn, as there is no amount outstanding against the same. The outlook on the long-term rating has been revised from 'Stable' to 'Positive'.

Rationale

The revision in the rating outlook factors in the improvement in the profitability levels seen in FY2017 and further improvement in the profitability and cash accruals anticipated in the near-to-medium term following the ramp up of production of reactive dyes, which is a high-margin product. SPCFL also plans to augment the capacity of dyestuff manufacturing facility from 3,000 tonnes per annum (TPA) to 6,000 TPA by Q3 FY2018, which would boost the company's revenues from the domestic as well as global markets, given the healthy demand outlook for the company's products.

The reaffirmation of ratings takes into account the cost-competitiveness of SPCFL supported by its fully-integrated operations in dyes & dye-intermediate business segment as well as forward integration into manufacturing of dyestuffs. ICRA notes the improvement in SPCFL's financial risk profile as is evident from healthy return indicators, comfortable gearing levels as well as liquidity profile driven by low working capital utilisation levels. Further, the demand outlook remains favourable for dyes & chemical business as a result of stringent pollution control norms in key producing regions which benefit the company. The ratings continue to favourably factor the long track record of SPCFL in the business as well as the extensive experience of the promoters in the line of business. The ratings also take into account the healthy financial profile of the company characterised by healthy profitability and return indicators as well as low reliance on external borrowings resulting in comfortable gearing levels. The company recently completed most of its capex requirements from the proceeds of its IPO (Initial Public Offering) that it had successfully completed in FY2016.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

The ratings are, however, constrained on account of the vulnerability of the company's profitability to adverse fluctuations in the cost of raw materials as well as intense competitive pressures persistent in the industry. The ratings also take into account the regulatory risk associated with the fertiliser business and further susceptibility of the 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 manufacturing of Single Superphosphate (SSP), as seen in FY2017. ICRA also takes note of SPCFL's recent acquisition of Kisan Phosphates Private Limited (KPPL), a company engaged in the manufacturing of SSP, Dicalcium Phosphate (DCP) and cattle feed, at an investment of about Rs. 20 crore. SPCFL plans to prepay the term loans of KPPL, though the loans outstanding are limited at about Rs. 7~8 crore. SPCFL plans for further expansion in capacity of reactive dyes and Sulphate of Potash (SOP) as well as for setting up of auxiliary textile chemicals production facility over the medium term for which it will have to resort to external funding.

ICRA takes note of the civil suit filed by Huntsman International (India) Private Limited (HIIPL) with the Honourable High Court of Delhi, for permanent injunction restraining Abiss Textile Solutions Private Limited (a company promoted by two of the promoters of SPCFL), SPCFL and its promoters from allegedly using confidential and proprietary information of the customer for manufacturing, marketing and selling dye products and for other consequential relief. Subsequent to this, SPCFL has filed a damage and defamation suit of Rs. 250 crore against HIIPL for malafide intention behind damaging and defaming image of the company. While the dispute between the promoter group company and HIIPL is sub-judice, the company's overall sales have seen limited impact as the company has been able to get new customers, aided by its long track record in dyes business. Nonetheless, any material impact on the company's operations due to the above matter remains a key rating sensitivity.

Key rating drivers

Credit strengths

- **Established track record in the dye intermediates business -** SPCFL has a long track record in the dye and dye intermediates business as well as a strong customer profile. The extensive experience of the promoters in the line of business also provides comfort against any marketing related risks. Furthermore, SPCFL enjoys locational advantage arising from proximity to raw material sources and end-user industries.
- **Completely integrated operational structure -** SPCFL is advantageously placed vis-a-vis its peers as it has a zero discharge unit and is cost-competitive due to fully integrated operations in dyes & dye-intermediate business segment which in turn enables the company to maintain healthy profitability levels. Moreover, the demand outlook remains favourable for dyes & chemical business as a result of stringent pollution control norms in key producing regions which continues to benefit the company.
- **Improvement in financial risk profile -** The company's profitability levels and return indicators have been healthy and saw further improvement in FY2017 backed by ramp up of operations in the dyestuff manufacturing facility. Steady cash accruals and low gearing levels along with successful completion of IPO issue in FY2016 further strengthen SPCFL's financial position. The liquidity position remains healthy as reflected by low utilisation of the working capital bank limits.

Credit weaknesses

- **Vulnerability to input price fluctuations –** The operating profitability remains exposed to adverse fluctuations in the cost of raw materials which may not be passed on to the customers adequately as well as decline in import duty level. Furthermore, SPCFL is also exposed to the intense competitive pressures in the industry.
- **Regulatory risk associated with the fertiliser business –** The SSP business faces high regulatory risk as any reduction or delays in the subsidy payable by the GoI on SSP could affect the company's profitability. Further, the profitability margins of the fertilizer business are vulnerable to volatile raw material prices and foreign exchange fluctuations.
- **Increase in working capital intensity –** The company's debtor days remain high on the back of pending receivables from Huntsman International, post the litigation filed by the latter against a group company of SPCFL. Apart from that, delay in the receipt of subsidy for sales of SSP also contributed to the increase in the working capital intensity of SPCFL in FY2017 although the past trend of subsidy recovery mitigates the risk for the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Entities in the Chemical Industry
Rating Methodology for Entities in the Fertiliser Industry

About the company:
SPCFL, formerly known as Shree Pushkar Petro products Limited was incorporated in 1993 and was engaged in trading activities in dyes intermediates. The company set up its own manufacturing facility with a single product plant for Gamma Acid at MIDC, Lote Parshuram in Maharashtra in 1998-99 and over the years has expanded its activities into manufacturing of complimentary and allied products like K Acid, Vinyl Sulphone Ester, Acetanilide, Meta Uriedo Aniline, R Salt, Dicalcium phosphate, H-acid and Sulphuric acid and its derivatives, Single Super Phosphate (SSP) and Soil Conditioner (SC). . In January 2016, the company forward integrated into manufacturing of reactive dyes with an installed capacity of 3,000 TPA. Apart from that, SPCFL has also set up facilities for manufacturing of Sulphate of Potash (SOP), Calcium Chloride and NPK fertilisers at its Lote Parshuram site. The company has several plants at a single location to manufacture the various products with an installed capacity of 204,886 TPA, which was increased from 187,436 TPA post the completion on the capex programme.

Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs. crore)	248.8	313.0
PAT (Rs. crore)	22.4	30.5
OPBDIT/ OI (%)	13.0%	16.7%
RoCE (%)	24.1%	26.2%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.5	0.3
Interest coverage (times)	16.5	20.6
NWC/ OI (%)	17%	20%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Oct 2017	Oct 2016	Nov 2015	Mar 2015
1	Cash Credit	Long Term	42.00	42.00	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA] A- (Stable)	[ICRA] BBB (Positive)
2	Standby Line of Credit (SLC)	Long Term	1.50	1.50	[ICRA]A (Positive)	[ICRA] A (Stable)	[ICRA] A- (Stable)	[ICRA] BBB (Positive)
3	Letter of Credit/Bank Guarantee/ Off balance exposure	Short Term	36.82	36.82	[ICRA]A1	[ICRA] A1	[ICRA] A2+	[ICRA] A3+
4	Term Loans	Long Term	0.02	0.00	Withdrawn	[ICRA] A (Stable)	[ICRA] A- (Stable)	[ICRA] BBB (Positive)

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	42.00	[ICRA]A (Positive)
-	Standby Line of Credit	-	-	-	1.50	[ICRA]A (Positive)
-	Letter of Credit/Bank Guarantee	-	-	-	36.82	[ICRA]A1

Source: SPCFL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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