September 23, 2019

Shree Pushkar Chemicals & Fertilisers Limited: Rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	42.00	42.00	[ICRA]A+ (Stable); Reaffirmed
Fund-based - SLC	1.50	1.50	[ICRA]A+ (Stable); Reaffirmed
Non-fund based – Letter of Credit/Bank Guarantee/Off balance exposure	36.82	36.82	[ICRA]A1; Reaffirmed
Total	**80.32**	**80.32**	

Rationale

The rating 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. ICRA notes the ramp up of production of the company's reactive dyes manufacturing facility maintaining healthy profitability levels. Further, the demand outlook remains favourable for the dyes and chemical business as a result of stringent pollution control norms in key producing regions, which benefit the company. 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 positively notes the dismissal of the civil suit filed by Huntsman International (India) Private Limited against a group company of SPCFL by the High Court of Delhi vide its order dated February 21, 2018, and the subsequent out of court settlement between both parties.

The rating is, 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 rating also takes 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 grown steadily at a CAGR of 17% to Rs. 451 crore in FY2019 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 Q1 FY2020, the operating profits moderated to 11.8% because of the revamp undertaken at unit-1, coupled with a one-time payment of ~Rs. 1.14 crore and increase in transportation expenses. 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 still remained low at 0.2 time as on March 31, 2019.

ICRA notes the ongoing refurbishment being undertaken at one of the units with a revenue impact of ~Rs. 60 crore in FY2020, which is expected to be partially offset by improvement in revenue from the KPPL business and ramp up of the dye unit. ICRA also notes that the company plans to acquire an SSP manufacturing unit (Madhya Bharat Phosphates Private Limited) through the NCLT route, for which the company has placed a bid of Rs. 28 crore. If the acquisition goes through, the credit metrics of SPCFL are not expected to deteriorate materially; nevertheless, the operational and

financial performance of the acquired entity will be a key monitorable. The company has a sizeable capex plan of ~Rs. 120 crore over the next two years, which includes capacity expansion in dye intermediates (~Rs. 75 crore), refurbishment of unit-1 (~Rs. 5 crore), a solar plant (~Rs. 12 crore) and the acquisition of a new fertiliser unit (~Rs. 28 crore), which would expose it to execution risks. Nonetheless, the projects will be funded entirely through internal accruals, and accordingly the company's gearing and debt coverage metrics are expected to remain comfortable.

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 demand outlook remains favourable for the dyes and chemical business as a result of stringent pollution control norms in key producing regions, which continues to benefit the company.

Healthy financial profile - The company's profitability levels and return indicators have remained healthy, backed by ramp up of operations in the dyestuff manufacturing facility. The company continues to maintain healthy cash accruals and low gearing levels, which strengthen SPCFL's 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: Strong

SPCFL's liquidity is **strong** given that its cash flow from operations has been positive for most fiscals, supported by its healthy profitability levels. 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. 40 crore as on March 31, 2019, which support its liquidity profile.

Overall, ICRA expects SPCFL to be able to meet its near-term commitments through internal sources of cash and yet be left with sufficient cash surpluses. 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.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology on Fertilisers Rating Methodology on Chemicals
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of the parent company, SPCFL. As on March 31, 2019, 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).

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	395.3	451.9
PAT (Rs. crore)	36.5	40.8
OPBDIT/OI (%)	15.4%	14.8%
RoCE (%)	21.5%	18.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4
Total Debt/OPBDIT (times)	1.1	0.7
Interest Coverage (times)	21.4	18.1
DSCR	15.5	14.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017
					23-Sep-2019	31-Jan-2019	13-Dec-2017	31-Oct-2017	24-Oct-2016
1	Cash Credit	Long Term	42.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)
2	Standby Line of Credit	Long Term	1.50	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)
3	Letter of Credit/ Bank Guarantee/Off balance exposure	Short Term	36.82	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

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 Line of Credit	NA	NA	NA	1.50	[ICRA]A+ (Stable)
NA	Letter of Credit/ Bank Guarantee/ Off balance exposure	NA	NA	NA	36.82	[ICRA]A1

Source: Shree Pushkar Chemicals and Fertilisers Limited

Annexure-2: List of entities considered for consolidated analysis

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

Analyst Contacts

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Prashant Vasisht
+91 12 4454 5322
prashant.vasisht@icraindia.com

Swarup Raj Jena
+91 22 6169 3343
swarup.jena@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents