March 23, 2021 Revised

Madhya Bharat Phosphate Private Limited: [ICRA]A+ (Positive)/ [ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	13.50	[ICRA]A+ (Positive); assigned
Fund Based Limits	20.00	[ICRA]A+ (Positive); assigned
Non-Fund Based Limits	20.00	[ICRA]A1; assigned
Total	**53.50**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Madhya Bharat Phosphate Private Limited (MBPPL) with its parent, Shree Pushkar Chemicals and Fertilisers Limited (SPCFL), and its subsidiary, Kisan Phosphates Private Limited (KPPL). The basis for taking a consolidated view is the close operational, management and financial linkages between SPCFL, KPPL and MBPPL. The three entities share a common management and KPPL and MBPPL are strategically important to SPCFL. Further, SPCFL has also provided corporate guarantee for MBPPL's term loans and advances of Rs. 10 crore, which upon sanction of term loans to the latter have been repaid to the parent.

The assigned ratings take 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 ratings also factor in the cost competitiveness of SPCFL, supported by its fully integrated, zero waste operations in the dyes and dye intermediate business segment. SPCFL completed the acquisition of MBPPL in March 2020 at a total cost of ~Rs. 27.10 crore, which was funded entirely from internal accruals. MBPPL has a production capacity of 2.1 lakh MTPA for Single Super Phosphate (SSP) spread over two plants (Jhabua and Deewanganj in Madhya Pradesh). The acquisition of MBPPL will enable SPCFL to expand its geographical reach and diversify its sales mix. MBPPL's Jhabua plant was made operational by June 2020 and the Deewanganj plant will become operational by March 2021. The ratings also take into consideration the long track record of SPCFL in the business as well as the extensive experience of the promoters in this business sector. Further, the ratings take into account the favourable demand outlook for the fertilisers, dyes and dye intermediates business. While the dyes and dye intermediates segment was severely impacted by the pandemic owing to the slowdown in the textile sector, the same is now recovering well.

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 it.

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 Di-calcium phosphate (DCP), H-acid, sulphuric acid, SSP and soil conditioner as well as increasing capacity utilisation. In 9M FY2021, demand for dyes and intermediaries remained low due to the pandemic induced lockdown, which led to decline in revenues by 7% on a YoY basis and moderation in operating profitability to 12.1%.

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 for a total capex of Rs. 105-110 crore (of which about Rs. 90-95 crore has been incurred till December 31, 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 the ongoing Covid-19 pandemic, the company's manufacturing plants were closed from the third week of March 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. However, the company has been experiencing significant improvement in demand lately due to the China+1 strategy being implemented by overseas companies. Further, the fertiliser segment has witnessed robust growth in revenues in 9M FY2021 due to healthy demand driven by good monsoons.

The positive outlook is on the account of the anticipated increase in scale of operations and profits of SPCFL in the near to medium term, following the successful acquisition of MBPPL and commissioning of Unit V, which is expected by May 2021.

Key rating drivers and their description

Credit strengths

Established track record in the dyes and dye intermediates business - SPCFL enjoys an established track record in the dyes 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 from its proximity to raw material sources as well as end-user industries.

Completely integrated operational structure - SPCFL is advantageously placed vis-à-vis its peers as it has a zero-waste unit and is cost competitive due to its fully integrated operations in the dyes and dye intermediate 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 the 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 factors – ICRA could upgrade SPCFL's rating if the ongoing capacity expansion projects get commissioned in a timely manner leading to significant increase in its scale of operations, while maintaining healthy operating margins and working capital intensity.

Negative factors – 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 on Chemicals
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings of MBPPL, ICRA has considered the consolidated financials of the parent company, SPCFL and its subsidiary, KPPL. As on March 31, 2020, the company had subsidiaries, which are enlisted in Annexure-2.

About the company

Madhya Bharat Phosphates Pvt. Ltd. is a private limited company Incorporated under the Companies Act, on January 6, 1998. The company was placed into corporate insolvency resolution process (CIRP) by NCLT-Ahmedabad under the "Insolvency & Bankruptcy Code 2016" (IBC) by an order dated September 11, 2018. A proposal to take over the management of MBPPL by SPCFL by acquiring 100% shares of the company, through NCLT was completed in April 2020. The proposal for takeover of the management, as aforesaid, was completed at a total cash down bid price of Rs. 19.37 crore. MBPPL has two manufacturing units—one at Jhabua with a 150,000 MTPA capacity of SSP and another at Deewanganj with a 60,000 MTPA capacity of SSP.

About the parent company (SPCFL)

Shree Pushkar Chemicals and Fertilisers Limited 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, in Lote Parshuram, 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 either through backward integration or by utilising the by-products from its existing operations. In September 2017, the company acquired Kisan Phosphates Private Limited, with its manufacturing facility at Hisar (Haryana). In April 2020, the company acquired Madhya Bharat Phosphates Private Limited with its manufacturing facilities at Deewanganj and Meghnagar in Madhya Pradesh.

About the group company (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 benefit from their central location, 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, thus making it a fully-owned subsidiary of SPCFL.

As per H1 FY2021 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 (audited)

ICTIPL Consolidated	FY2019	FY2020	H1FY2021
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
DSCR (times)	14.6	18.7	13.4

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/ (Interest + Repayments made during the Year)

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA:

CRISIL has maintained Madhya Bharat Phosphate Private Limited's bank loans' rating in the noncooperating category. The issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using the rating. The rating will continue to appear as 'CRISIL D (ISSUER NOT COOPERATING)' on the agency's website.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					23-Mar-2021	-	-	-
1	Term Loan	Long-Term	13.50	10.00	[ICRA]A+ (Positive)	-	-	-
2	Fund Based Limits	Long-Term	20.00		[ICRA]A+ (Positive)	-	-	-
3	Non-Fund Based Limits	Short-Term	20.00	-	[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 click here

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	Term Loan	FY2021	7.75%	FY2026	13.50	[ICRA]A+ (Positive)
NA	Fund Based Limits	NA	NA	NA	20.00	[ICRA]A+ (Positive)
NA	Non-Fund Based Limits	NA	NA	NA	20.00	[ICRA]A1

Source: *Company*

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

Company Name	SPCFL Ownership	Consolidation Approach
Kisan Phosphates Private Limited	100%	Full Consolidation
Madhya Bharat Phosphate Private Limited	100%	Full Consolidation

Source: *Company*

Corrigendum:

- Addition of details under the section “Status of non-cooperation with previous CRA”

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About ICRA Limited:

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