May 23, 2022

Shree Pushkar Chemicals & Fertilisers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	43.00	43.00	[ICRA]A+ (Positive); reaffirmed
Long-term Fund-based Term Loan	1.00	1.00	[ICRA]A+ (Positive); reaffirmed
Short-term Non-fund Based Working Capital	37.57	37.57	[ICRA]A1; reaffirmed
Total	**81.57**	**81.57**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Shree Pushkar Chemicals and Fertilisers Limited (SPCFL) and its wholly-owned subsidiaries, Kisan Phosphates Private Limited (KPPL) and Madhya Bharat Phosphate Private Limited (MBPPL), collectively referred to as the consolidated entity or the Group due to the operational, management and financial linkages between them. The three entities share a common management with KPPL and MBPPL being strategically important to SPCFL.

The ratings consider SPCFL's healthy consolidated financial profile, characterised by healthy profitability and return indicators along with low reliance on external borrowings, which leads to comfortable gearing levels. The ratings also factor in the healthy growth in revenue and profits of the consolidated entity in 9M FY2022, aided by organic growth and the acquisition of MBPPL last year. ICRA, however, notes that the commencement of Unit V (under SPCFL), which was earlier expected to be commissioned in Q1 FY2022, got delayed due to the impact of the pandemic's second wave and was finally completed in March 2022. The new unit will enhance the capacity for dye intermediates and sulphur and the capex of ~Rs. 105 crore was met by internal accruals and cash surplus. ICRA also notes that the Group plans to restart SSP operations at the Deewanaganj plant (under MBPPL) from Q1 FY2023.

The ratings also consider SPCFL's long track record and the extensive experience of the promoters in the sector. Further, the ratings consider the favourable demand outlook for the fertilisers, dyes and dye intermediates business. The dyes and dye-intermediates segment which was severely impacted by the pandemic owing to the slowdown in the textile sector, is now recovering well.

The ratings are, however, constrained by the vulnerability of the company's profitability to the adverse fluctuations in raw material costs and the intense competition in the industry. The ratings also consider the agro-climatic and regulatory risks associated with the fertiliser business and the susceptibility of SPCFL's profitability margins to foreign exchange (forex) fluctuations. The company's operations are exposed to subsidy delays or inadequate subsidy provisions from the Government of India (GoI) for its fertiliser business, especially as the share of fertilisers has increased for the consolidated entity and is expected to further increase, going forward.

The Positive outlook is due to the anticipated increase in scale of operations and profits of the consolidated entity in the near to medium term, following the commissioning of Unit V and expansion of fertiliser production under the subsidiaries, while the credit profile is expected to remain healthy.

Key rating drivers and their description

Credit strengths

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

Completely integrated operational structure – The Group 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 the closure of plants in key producing regions as a result of stringent pollution control norms.

Healthy financial profile – The consolidated entity's profitability levels and return indicators have remained healthy. On a consolidated basis, the revenue of the company has improved to Rs. 355 crore in FY2021 from Rs. 346 crore in FY2020. Further, the revenue for 9M FY2022 was Rs. 392 crore, an ~62% increase from 9M FY2021 revenue of Rs. 241 crore. This has been due to the recovery in demand for the dyes segment led by the textile sector, and due to healthy demand for fertilisers. The operating margins improved to 15.4% in 9M FY2022 compared with 12.2% in FY2021, benefiting from operating leverage and the increase in realisations, as the operations ramped-up and market conditions improved. The consolidated entity continues to maintain healthy cash accruals and low gearing levels, which strengthens its financial position. The liquidity position remains healthy, reflected in the low utilisation of the working capital bank limits.

Credit challenges

Vulnerability to input price fluctuations – The company's operating profitability remains exposed to the adverse fluctuations in raw material costs and any revisions in the import duty. Further, SPCFL is exposed to the intense competition in the industry.

Regulatory and agro-climatic risks associated with fertiliser business - The agricultural sector in India remains vulnerable to the vagaries of monsoons as the areas under irrigation remain low, which exposes the fertiliser sector's sales and profitability to volatility. The fertiliser segment, being highly regulated, also remains vulnerable to the 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. In the recent months, the prices of rock phosphate, a key raw material for the fertiliser segment, have witnessed a very sharp increase; however, as per the latest notification, the Government has not increased the subsidy for SSP for H1 FY2023, necessitating retail price revisions. A sustained elevated raw material price may put pressure on the margins, in the absence of adequate subsidy increase or retail price revisions.

High working capital intensity – The company's debtor days remain high due to the nature of its business. Further, any delay in the receipt of subsidy for SSP sales can result in the increase in SPCFL's working capital intensity, although the past trend of subsidy recovery mitigates the risk. Recently, the increase in raw material prices, has also increased the working capital requirements. However, the Group has adequate working capital limits with only moderate utilisation.

Liquidity position: Adequate

The consolidated entity's liquidity is adequate, given that its cash flow from operations has been positive for most fiscals, supported by its healthy profitability levels. Hence, the liquidity position remains comfortable with the healthy cash flows and limited long-term debt repayment obligations. Further, the consolidated entity has sizeable unutilised working capital bank limits in addition to cash and investments of ~Rs. 69 crore as on December 31, 2021, which support its liquidity profile. Overall, ICRA expects the Group to meet its near-term commitments through internal accruals. The Group also has healthy financial flexibility to raise debt at a low cost from financial institutions.

Rating sensitivities

Positive Factors – ICRA could upgrade the ratings if there is a significant increase in its scale of operations while maintaining healthy operating margins, capital structure and working capital intensity.

Negative Factors – Pressure on the ratings 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 its profitability owing to an economic slowdown. Additionally, any deterioration in the company's working capital cycle impacting its cash flows and liquidity may also trigger a downgrade. A specific credit metric is the total debt/OPBITDA above 1.5 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, ICRA has taken a consolidated view of SPCFL and its wholly-owned subsidiaries, KPPL and MBPPL. As on March 31, 2021, the company had subsidiaries, which are enlisted in Annexure-2.

About the company

Shree Pushkar Chemicals and Fertilisers Limited was incorporated on March 29, 1993, by Mr. Punit Makharia as Shree Pushkar Petro Products Limited. The company primarily produces dyestuffs and dye intermediates, and fertilisers like SSP and SC, along with chemicals like sulphuric acid and DCP, i.e., cattle feed. The promoters ventured into the 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 with the manufacture of 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 subsidiary (KPPL)

KPPL, incorporated on August 13, 2012, 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. The plant benefits from its central location, in close proximity to rich agricultural states like Punjab, Himachal Pradesh and Uttar Pradesh. KPPL has the necessary license to sell 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 a 100% stake of KPPL for 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.

About the subsidiary (MBPPL)

Madhya Bharat Phosphates Pvt. Ltd. is a private limited company incorporated under the Companies Act, on January 6, 1998. According to an order of September 11, 2018, the company was placed into the corporate insolvency resolution process (CIRP) by NCLT-Ahmedabad under the Insolvency & Bankruptcy Code 2016 (IBC). 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 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.

Key financial indicators (audited)

SPCFL- Consolidated	FY2020	FY2021	9MFY2022*
Operating Income (Rs. crore)	346.3	354.9	391.9
PAT (Rs. crore)	35.7	28.5	41.5
OPBDIT/OI (%)	14.5%	12.2%	15.4%
PAT/OI (%)	10.3%	8.0%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4	0.6
Total Debt/OPBDIT (times)	1.0	1.3	1.4
Interest Coverage (times)	23.7	29.8	33.2

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020
					May 23, 2022	-	Mar 23, 2021	Dec 29, 2020	Dec 21, 2020	Sep 23, 2019
1	Cash Credit	Long-Term	43.00	-	[ICRA]A+ (Positive)	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Term Loan	Long-Term	1.00	1.00	[ICRA]A+ (Positive)	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Non-Fund Based Limits	Short-Term	37.57	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Non-fund based limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	43.00	[ICRA]A+ (Positive)
NA	Term Loan	Sep-20	8.2%	Sep-22	1.00	[ICRA]A+ (Positive)
NA	Non-fund based	NA	NA	NA	37.57	[ICRA]A1

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

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

Source: *Company*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 12 4454 5304
sabyasachi@icraindia.com

Prashant Vasisht
+91 22 4454 5322
prashant.vasisht@icraindia.com

Sai Krishna
+91 22 6114 3435
sai.krishna@icraindia.com

Kushal Shah
+91 79 4027 1527
kushal.shah@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:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches