March 21, 2023

Shree Pushkar Chemicals & Fertilisers Limited: Ratings reaffirmed; Outlook revised from Positive to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based cash credit	60.00	60.00	[ICRA]A+ reaffirmed; outlook from Positive revised to Stable
Long-term fund-based term loan	1.00	1.00	[ICRA]A+ reaffirmed; outlook from Positive revised to Stable
Short-term non-fund based working capital	51.57	51.57	[ICRA]A1; reaffirmed
Total	**112.57**	**112.57**	

**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 among them. The three entities share a common management with KPPL and MBPPL being strategically important to SPCFL.

The rating outlook of SPCFL has been revised to Stable from Positive on account of delays in the commencement of SPCFL's Unit V and MBPL's Deewanganj plant. The delays, coupled with subdued demand and moderation in the margins of the fertiliser and chemical segments, have resulted in lower-than-expected growth in financial profile. The earlier outlook was based on the anticipated increase in the scale of operations with the commissioning of the units in Q1 FY2023. However, Unit V began operations only from Q3 FY2023 and the Deewanganj plant went onstream in Q4 FY2023.

The rating reaffirmation, however, draws comfort from SPCFL's long track record, the extensive experience of the promoters in the sector and the comfortable capital structure and coverage indicators. Further, the ratings consider the favourable demand outlook for fertilisers, dyes and dye intermediates in the medium to long term. However, ICRA notes that during 9M FY2023, the demand was subdued due to factors like geo-political issues impacting export demand and a sharp increase in raw material prices adversely impacting profit margins. The operating profit margin (OPM) of SPCFL (consolidated) was 9.5% in 9M FY2023 against 13.7% in FY2022.

The ratings are constrained by the vulnerability of the company's profitability to the adverse fluctuation 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 Stable outlook reflects ICRA's opinion that SPCFL's financial profile will improve, supported by capacity expansion, while the credit profile is expected to remain healthy.

Key rating drivers and their description

Credit strengths

Established track record in dye, dye intermediates and fertiliser businesses – The Group has an established track record in the dye, dye intermediates and fertiliser businesses (mainly single super phosphate) 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 because of 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 the 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 the closure of plants in key producing regions because of stringent pollution control norms.

Comfortable capital structure and coverage indicators –On a consolidated basis, the company had comfortable capital structure and coverage indicators with a gearing of 0.2 times as on March 31, 2022 (PY 0.2 times), and interest cover of 40.7 times and TD/OPBDITA of 1.2 times in FY2022 compared with 29.8 times and 1.3 times, respectively, in FY2021.

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 intense competition in the industry. During 9M FY2023, while the consolidated entity continued to witness a YoY revenue growth of 28.53%, the OPM and NPM moderated to 9.5% and 4.8%, respectively, from 13.7% and 9.5%, respectively, in FY2022, due to a sharp increase in raw material prices.

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 recent months, the prices of rock phosphate, a key raw material for the fertiliser segment, have witnessed a very sharp increase, while there has been no increase in subsidy for single super phosphate (SSP) since FY2022, necessitating retail price revisions. Sustained elevated raw material prices 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 increase SPCFL's working capital intensity, although the past trend of subsidy recovery mitigates the risk. However, the Group has adequate working capital limits with only moderate utilisation.

Environmental and Social Risks

Environmental considerations: As a chemical manufacturing company, SPCFL is exposed to environmental regulations and safety standards, which are expected to be tightened over time. These necessitate investments towards meeting the evolving standards. Further, global efforts towards decarbonisation and focus on the impact of fertiliser use on soil health may lead to the development of new types of fertilisers and lower the demand for conventional fertilisers. However, in India, ICRA does not expect any material impact on conventional fertiliser offtake in the near to medium term as the new-age fertilisers, whenever introduced, are expected to be priced at a premium unless the GoI provides subsidy support for these as well. Additionally, the acceptance among farmers will also take time. Moreover. the fertiliser sector could also witness changes in the manufacturing processes, leading to higher incremental investments to meet the tightening environmental norms.

However, ICRA expects the Government of India to support the industry through policy initiatives so that the availability of fertilisers at reasonable prices for the farming community is not compromised.

Social considerations: Being a chemical manufacturing company, the exposure to on-site health/safety related risks remains high. Also, rising awareness about the adverse impact of chemical fertilisers on soil health could induce a shift towards alternative farming techniques, including organic farming. While the yield from organic farming remains relatively low at present, going forward, technological advances in agriculture could weigh on fertiliser demand. However, this risk is unlikely to materialise in the near term as any hasty progression away from fertiliser use could have adverse implications for food security.

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, although there has been some moderation in the current fiscal. The company has planned expansion capex largely incurred and moderate capex plans in the medium term. Moreover, its limited long-term debt repayment obligations, expected cash accruals, availability of unutilised working capital limits and healthy cash and investments will support its liquidity profile.

Rating sensitivities

Positive Factors – ICRA could upgrade the ratings if the company demonstrates a significant increase in its scale of operations and improvement in operating margin on a sustained basis while maintaining healthy 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 sustained moderation in revenue and profitability. Additionally, any deterioration in the company's working capital cycle impacting its cash flows and liquidity may trigger a downgrade. A specific credit metric for downgrade is 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, 2022, 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 set up a single-product plant for gamma acid at MIDC, in Lote Parshuram, Maharashtra. Over the years, the company has expanded its product offerings 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 in the Hisar district of 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 licence to sell SSP in all these states and, thus, has the potential to market its products in all the four states. In September 2017, SPCFL acquired a 100% stake in 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 under 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 165,000 MTPA capacity of SSP and another at Deewanganj with a 132,000 MTPA capacity of SSP.

Key financial indicators (audited)

SPCFL- Consolidated	FY2021	FY2022
Operating income (Rs. crore)	354.9	584.0
PAT (Rs. crore)	28.5	55.5
OPBDIT/OI (%)	12.2%	13.7%
PAT/OI (%)	8.0%	9.5%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	1.3	1.2
Interest coverage (times)	29.8	40.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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
					March 21, 2023	May 24, 2022	May 23, 2022	-	Mar 23, 2021	Dec 29, 2020	Dec 21, 2020	Sep 23, 2019
1	**Cash credit**	Long-Term	60.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	**Term loan***	Long-Term	1.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

4	**Non-fund based limits**	Short-Term	51.57	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

*Proposed term loan

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: Click Here

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	60.00	[ICRA]A+ (Stable)
NA	Term loan*	NA	NA	NA	1.00	[ICRA]A+ (Stable)
NA	Non-fund based	NA	NA	NA	51.57	[ICRA]A1

Source: *Company, *proposed term loan*

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*

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