

May 08, 2024

Shree Pushkar Chemicals & Fertilisers Limited: Ratings reaffirmed; rated amount enhanced

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+ (Stable); reaffirmed
Long-term fund-based term loan	1.00	0.00	-
Short-term non-fund based working capital	51.57	91.32	[ICRA]A1; reaffirmed and assigned for enhanced amount
Total	112.57	151.32	

*Instrument details are provided in Annexure-I

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 reaffirmation of the ratings reflects the SPCFL Group's long track record, the extensive experience of the promoters in the sector and the comfortable capital structure and coverage indicators along with a favourable demand outlook for dyes and dye intermediates in the medium to long term. ICRA notes the moderation in the Group's profitability in 9M FY2024 due to a downward revision in subsidy for single super phosphate (SSP) under the Nutrient-Based Subsidy (NBS) scheme from October 1, 2023. Additionally, the dyes and dye intermediate segment witnessed headwinds in FY2024 owing to weak demand from the key consuming sectors, mainly the textile industry.

However, ICRA notes that the GoI has increased the subsidy to some extent for the season starting April 1, 2024, which should support the contribution margins. Further, the forecast of a normal monsoon for the upcoming kharif season should support fertiliser offtake volumes, thereby improving the company's cash generation in FY2025. The dyes and dye intermediate segment is also expected to witness a marginal improvement in FY2025 which should support the cash generation in FY2025. Hence, an improvement in the consolidated performance will remain a key monitorable, going forward. The ratings also factor in the commissioning of SPCFL's Unit V in March 2023 and MBPPL's Deewanganj plant in early FY2024. The enhanced capacity from these units is expected to support the increase in the scale of operations.

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 performance, particularly in fertilisers, remains susceptible to the regulatory risks related to the subsidy levels and its timely release by the GoI.

SPCFL is also undertaking Rs. 215-crore capex to enhance the capacity of the chemical business and foray into the manufacturing of complementary products in the fertiliser business. The capex is expected to support growth in the scale of operations along with diversification benefits and improved competitiveness. The capex plan is expected to be commissioned in phases till March 2026. The company plans to fund the capex largely through internal accruals and from term debt, if

required. Nonetheless, in the near to medium term, the company will be exposed to project execution risks and the completion of projects without major time and cost overruns will be a key monitorable.

The Stable outlook reflects ICRA's opinion that the SPCFL Group will continue to benefit from its established track record in the chemical and fertiliser industries. Moreover, the expected improvement in the contribution levels of the fertiliser business is likely to keep the overall cash generation healthy which will keep the credit profile stable.

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. The company is also expanding the complementary product profile of the fertiliser business, which will improve its product offerings.

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 its fully integrated operations in the dye and dye intermediate segment, which enables it to maintain healthy profitability. Moreover, the company continues to benefit from the demand shift 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 debt levels remain moderate, resulting in healthy capitalisation and coverage indicators. The Group's profitability moderated on account of subdued demand for dyes and dye intermediates and subsidy related headwinds for the fertiliser segment in 9M FY2024. However, the Group is able to maintain efficient working capital management with stable cash flow generation due to which it has been able to fund its capex through internal accruals.

The consolidated total debt/OPBDITA was 0.98x at the end of FY2023 against 1.19x at the end of FY2022. ICRA expects the total debt/OPBDITA to increase to ~1.40x by the end of FY2024, driven by moderation in the profitability during the year. The capitalisation and coverage indicators are expected to improve from FY2025 as the overall profitability is expected to improve. Moreover, majority of the capex will be funded from internal accruals, proceeds from share warrants and the investment portfolio with the company.

Credit challenges

Vulnerability to input price fluctuations and regulatory risks - The company's operating profitability remains exposed to the adverse fluctuations in raw material costs and any revision in import duty. Further, SPCFL is exposed to intense competition in the industry. During 9M FY2024, while the consolidated entity achieved a modest a YoY revenue growth of ~6.3%, the OPM moderated to ~7.8% in 9M FY2024 from ~9.5% in FY2023 due to a downward revision in subsidy.

Project execution risks - SPCFL has announced a Rs. 215-crore capex programme focusing on capacity expansion in the chemical business and new units under SPCFL standalone and MBPPL. The capex is to be executed in phases over the next two years ending March 2026. The company plans to fund the capex using internal accruals, liquidation of investment portfolio and funds raised from the promoters through the issue of warrants. The large size of the capex will expose the company to project execution risks, though the expansion of the existing products in the chemical segment mitigates the execution and ramp-up risk to some extent.

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, making the sale and profitability of the fertiliser sector volatile. 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. Sustained elevated raw material prices may put pressure on the margins in the absence of adequate subsidy increase or retail price revisions.

Working capital intensive operations – The company's operations remain moderately working capital intensive, particularly in the fertiliser segment. The working capital requirements increase due to the stocking of fertiliser prior to the season i.e. in Q1 of a fiscal. While the subsidy receipts from the GoI have remained timely with adequate subsidy allocation for the sector, any delay in the release of subsidy by the GoI can adversely impact the company's working capital cycle. On a standalone basis, the working capital cycle has remained at around 2 months, while it has remained around 70 days on a consolidated basis. The company has adequate cushion in its working capital borrowings to support any elongation in the working capital cycle.

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, technological advances in agriculture could weigh on fertiliser demand going forward. 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 liquidity position of the Group on a consolidated basis remains adequate with stable cash generation in each entity, healthy cushion in working capital borrowings and modest debt repayments (vis-à-vis cash flow from operations). Going forward, the cash flow from operations and the investment portfolio which the company intends to liquidate will remain largely adequate to fund the capex programme. The company has adequate cushion in its balance sheet to raise long-term debt, if required, to meet any funding requirement for the capex.

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 a 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 the consolidated total debt/OPBITDA being above 1.5 times on a sustained basis.

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-II

About the company

Shree Pushkar Chemicals and Fertilizers Limited (SPCFL) was incorporated on March 29, 1993, by Mr. Punit Makharia as Shree Pushkar Petro Products Limited. The company is engaged in the production of dyestuffs and dye intermediates, fertilisers like single super phosphate (SSP) and soil conditioners (SC), and chemicals like sulphuric acid and di-calcium phosphate (DCP), i.e. cattle feed.

The promoters ventured into this business with trading activities and were importing dye intermediates and selling in the domestic market, mainly in Maharashtra and Gujarat. However, in 1998-99, 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 uredo aniline, and R salt. The company's operations are largely integrated, and it has added a few products through backward integration or utilisation of the by-products from the existing operations.

About the subsidiaries:

KPPL

KPPL, incorporated in 2012, manufactures SSP, DCP, soil conditioners and sulphuric acid. KPPL's manufacturing plant is in the Hisar district in Haryana, which started commercial operations in October 2014. The plant benefits from its central location, in close proximity to agricultural states like Punjab, Himachal Pradesh and Uttar Pradesh. KPPL has the licence to sell SSP 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. 25.12 crore, making it a fully owned subsidiary of SPCFL.

MBPPL

Madhya Bharat Phosphates Pvt. Ltd. (MBPPL) was placed under the corporate insolvency resolution process (CIRP) by NCLT Ahmedabad in September 2018. In April 2020, SPCFL took over MBPPL by acquiring 100% shares of the company through NCLT at a total cash-down bid price of Rs. 19.37 crore. MBPPL has two manufacturing units – one at Jhabua, MP, with a 150,000-MTPA capacity of SSP, and another at Deewanganj in MP with a 60,000-MTPA capacity of SSP.

Key financial indicators (audited)

SPCFL-Consolidated	FY2022	FY2023	9MFY2024
Operating income	584.0	684.0	535.4
PAT	55.5	37.2	24.0
OPBDIT/OI	13.7%	10.0%	7.8%
PAT/OI	9.5%	5.4%	4.5%
Total outside liabilities/Tangible net worth (times)	0.58	0.50	0.49
Total debt/OPBDIT (times)	1.19	0.98	1.61
Interest coverage (times)	40.7	30.9	31.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
				May 08, 2024		Mar 21, 2023	May 24, 2022	May 23, 2022	
1 Cash credit	Long-Term	60.00	--	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	-
2 Term loan*	Long-Term	0.00	--	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	-
3 Non-fund based limits	Short-Term	91.32	--	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	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 I: 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	Non-fund based limits	NA	NA	NA	91.32	[ICRA]A1

Source: Company

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Annexure II: List of entities considered for consolidated analysis

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

Source: Company

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