

January 05, 2018

Kasturchand Fertilizers Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	10.00	[ICRA]B+(Stable); Assigned
Non Fund based – Bank Guarantee	0.50	[ICRA]A4; Assigned
Total	10.50	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 10.00 crore¹ cash credit facility of Kasturchand Fertilizers Private Limited. ICRA has also assigned a short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 0.50 crore bank guarantee facility of Kasturchand Fertilizers Private Limited ('KFPL' or 'the company')². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings takes into account the small scale of operations of the company with decline in sales in FY2017, on account of lower sales volumes of SSP fertilizers dues to delay in receipt of subsidy from the government. The ratings also take into account the weak financial risk profile of KFPL as reflected in its low net profitability and modest debt protection indicators. Furthermore, the ratings also takes note of the company's stretched liquidity position emanating from high stocking requirements and considerable cash lock up in business in the nature of subsidy receivable from government. ICRA also notes that the demand for fertilizers is vulnerable to agro-climatic conditions; and that the regulatory risks involved in the NPK and SSP fertilizer business is dependent on subsidies received from the government. The ratings are further constrained by the vulnerability of profitability to raw material price fluctuations as the purchases are not order backed and are exposed to agro-climatic conditions. Also, being a relatively less capital intensive segment, the competition is immense in this segment.

The ratings, however, favourably factor in the extensive experience of the promoters in fertilizer industry coupled with steady growth prospects for SSP and NPK fertilizers.

Outlook: Stable

ICRA believes Kasturchand Fertilizers Private Limited will continue to benefit from the extensive experience of its promoters. Further, the outlook may be revised to 'Positive' from 'stable' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Extensive experience of promoters in the fertilizer industry** - Incorporated in 1995, Kasturchand Fertilizers Private Limited was promoted by Mr. Munnalal Agrawal, a first-generation entrepreneur with an experience of more than two decades in the fertilizer industry. The company manufactures nitrogen-phosphorous-potassium (NPK) fertilizers and Single Superphosphate (SSP) Fertilizers. The NPK fertilizers contribute a major portion to revenues.
- **Healthy growth prospects of the fertilizer industry in India owing to increased awareness among farmers** - Because of large agriculture in India, Indian fertilizer market is booming. Additionally, the 2017-18 Union Budget laid special emphasis on agriculture and the Government of India's endeavour to double farmer's income in the next five years. ICRA factors in the healthy growth prospects for fertilizer industry in India in the medium term due to increased awareness among farmers about the usage of fertilizers.

Credit weaknesses

- **Small scale of operations** - The company has a small scale of operations and has witnessed muted revenue growth over the last five-year period. KFPL's operating income has grown at a low compounded annual growth rate (CAGR) of ~2% during 2013-17. Further, there was de-growth in operating income in FY2017, at 29% to Rs. 12.62 crore in FY2017 from Rs. 17.67 crore in FY2016 on account of reduced sale of SSP fertilizers. The margins are largely affected by the raw material price fluctuation which in turn affects the sales realisations.
- **Seasonality in the business; margins vulnerable to agro-climatic conditions** - The fertilizer manufacturing business is marked by some level of seasonality, as sales are highest before the Rabi and Kharif season, i.e., in the months of June, July and January. Generally, the monsoon season witnesses the highest sales during the year. The sale of fertilizers is highly dependent on agro-climatic conditions. In the years with good monsoons, the sale of fertilizers picks up and vice versa. This risk is more accentuated for companies with low geographical diversification, as in the case of KFPL, wherein the entire sales area is concentrated within the state Maharashtra.
- **High working capital intensity** - The working capital intensity of the company remained high over the years and increased in FY2017 on account of high inventory levels and drop in revenues. The company has a major portion of raw material in stock, which it procures in bulk in anticipation of higher demand for fertilizers. This results in high working capital intensity of operations.
- **Vulnerability of profitability to any adverse fluctuation in raw material prices** - The margins of the company are largely affected by the raw material price fluctuation which in turn affects the sales realisations. Any adverse movement in the price of raw materials could have an adverse impact on the company's margins, considering the limited ability to pass on the price hike owing to high competitive intensity. The price fluctuations also impact the realisations of the company.
- **Modest level of coverage indicators** - The coverage indicators of the company have remained at a modest level as reflected by interest coverage of 1.71 times, NCA/Total Debt of 9% and Total Debt/OPBDITA of 3.60 time in FY2017.
- **Fragmented industry structure with low entry barriers result in intense competition** - The NPK and SSP fertilizer manufacturing business segment is characterised by high competitive intensity on account of low complexity of work involved as well as low entry barriers. This results in the presence of a large number of fertilizer manufacturer in this segment, leading to a pressure on margins of all the players, including KFPL.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)
[Fertiliser Industry](#)

About the company:

Incorporated in 1995, Kasturchand Fertilizers Private Limited is involved in manufacturing of different grades of Nitrogen Phosphorus and Potassium (NPK) and Single Superphosphate (SSP) Fertilizers. The company is promoted by Mr. Munnalal Agrawal and his son, Mr. Abhay Agrawal. The plant unit is situated at Kalamgaon Village, Wadsa, Dist. Gadchiroali with the production capacity of 24,000 MT NPK Fertiliser and 24,000 MT Single super Phosphate per annum. The different grades of fertilizers are marketed and supplied under the trade mark of "KRUSHIDHAN", which is mainly for soil care and crop.

In FY2017, the company reported a net profit of Rs. 0.33 crore on an operating income of Rs. 12.62 crore, as compared to a net profit of Rs. 0.45 crore on an operating income of Rs. 17.67 crore in FY2016.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	17.67	12.62
PAT (Rs. crore)	0.45	0.33
OPBDIT/ OI (%)	10.46%	14.72%
RoCE (%)	9.53%	9.48%
Total Debt/ TNW (times)	1.83	0.92
Total Debt/ OPBDIT (times)	6.88	3.60
Interest coverage (times)	1.83	1.71
NWC/ OI (%)	94%	113%

OI: Operating Income; 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);
NWC: Net Working Capital

Status of non-cooperation with previous CRA:

CRA	Rating Action	Date of Press Release
India Ratings	Migrated to Non-Cooperating Category, as the agency does not have adequate information to review the ratings	August 31, 2017

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				January 2018	-	-	-
1	Fund-based – Cash Credit	Long Term	10.00	[ICRA]B+ (Stable)	-	-	-
2	Non Fund based – Bank Guarantee	Short Term	0.50	[ICRA]A4	-	-	-

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based – Cash Credit	-	-	-	10.00	[ICRA]B+ (Stable)
-	Non Fund based – Bank Guarantee	-	-	-	0.50	[ICRA]A4

Source: KFPL

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About ICRA Limited:

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