Vanita Agrochem (India) Private Limited

November 15, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Working Capital Facilities	25.00	32.00	[ICRA]BBB (Stable), reaffirmed
Fund Based – Term Loan	2.39	2.76	[ICRA]BBB (Stable), reaffirmed
Short Term – Non Fund Based	16.00	1.00	[ICRA]A3+, reaffirmed
Total	**43.39**	**35.76**	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB (pronounced ICRA triple B) and the short-term rating at [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 35.76-crore[1] bank lines of Vanita Agrochem (India) Private Limited (VAPL or the company)[2]. The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation factors in the long-standing experience of VAPL's promoters in the specialty fertilizers, micronutrients and agro-chemicals industry. Further, the company's strong distribution network in the Maharashtra region and increasing awareness about specialty fertilizers along with adoption of drip irrigation by farmers are expected to drive modest revenue growth for VAPL in the current fiscal. The ratings also take into account the healthy financial profile of VAPL characterized by comfortable gearing and healthy debt protection indicators. Furthermore, increasing share of higher value add micronutrients and chelate micronutrients in the product profile is expected to improve the margins going forward.

The ratings are however constrained by the moderate scale of operations with majority of revenue derived from single region – Maharashtra, exposure to inherent risks of agro-climatic vagaries in the agro-chemical business and working capital intensive nature of operation, with the company required to maintain sizeable stocks to cater to seasonal nature of industry. ICRA also takes note of the fragmented nature of agro-chemical industry due to low capital-intensive nature of business leading to intense competition in the domestic market and vulnerability of profitability to foreign exchange fluctuations with significant portion of raw material being imported, though the company undertakes judicious hedging which mitigates the said risk to an extent.

Outlook: Stable

ICRA believes VAPL will continue to benefit from the vast experience of its promoters in the fertilizers industry. The outlook may be revised to 'Positive' if the company diversifies across different geographies and thereby increases its reach to record steady revenue growth and maintain healthy profitability levels over the medium term, and better working capital management to strengthen the financial risk profile. The outlook may be revised to 'Negative' if there is considerable de-growth in the revenue and lower than expected cash accruals or weakening of liquidity from stretch in the working capital cycle.

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[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 fertilizers industry – The company benefits from the long-standing experience of its promoters in the fertilizers industry. VAPL focuses on specialty fertilizers, micro-nutrients and agro-chemicals. The in-house R&D of the company enables it to cater to varied crop-soil requirements. Prolonged presence in the market also helps VAPL in building a brand image which reflects positively into its sales.

Strong distribution network in and around Maharashtra – The company reaches out to the farmers - its end customers through a strong distribution network comprising ~1000 dealers located across Maharashtra.

Modest growth expected in operating income to be driven by favourable monsoon and increasing awareness – VAPL is expected to record modest growth in its operating income in FY2019 over FY2018, which would be driven by favourable monsoon conditions this season and also increasing awareness about specialty fertilizers along with adoption of drip irrigation which favours growth prospects for the specialty fertilizers segment.

Financial profile characterized by comfortable gearing and healthy debt protection indicators – Financial profile of VAPL continues exhibiting comfortable gearing which was recorded at 0.2x in FY2018. The company also reported healthy debt protection indicators, with an interest coverage of 11.0x and TD/OPBDITA of 0.5x for FY2018. Liquidity profile is further supported by working capital cushion of ~Rs. 18.0 crore along with cash and bank balances amounting to ~Rs. 15.5 crore as on March 31, 2018.

Increasing share of higher value add products leading to comfortable profitability – VAPL has been witnessing steady increase in revenue share from higher value add products viz. micronutrients and chelate micronutrients in its top line over the years. Increasing share of such premium products in the product mix is expected to reflect in the improvement in company's profitability going forward.

Credit weaknesses

Moderate scale of operations with geographical concentration – VAPL's scale of operations remains moderate with its revenue largely concentrated in the state of Maharashtra. The company however is making efforts to diversify geographically by entering the markets into the neighbouring states of Maharashtra which would provide cushion against geographical concentration and would also scale up the operations to an extent.

Inherent risks of agro-climatic vagaries in the agro-chemical business – As the agro-chemical business is directly related to crops, it is vulnerable to the inherent risks of agro-climatic vagaries. Insufficient or untimely monsoon may impact production of certain crops which then adversely affects demand for fertilizers pertaining to that crop. Moreover, revenues of VAPL also stand vulnerable to regulatory changes.

Fragmented nature of agro-chemical industry - The agro-chemical industry is fragmented in nature given the low capital-intensive nature of business. The industry is characterized by few large and several small players which results in stiff competition and pricing pressure.

Working capital intensive operations - VAPL's operations are working capital intensive in nature as the company is required to maintain sizeable stocks to cater to seasonal nature of industry. The company recorded 71 inventory days in FY2018. Its inventory mainly comprises the raw material whereas it maintains low inventory for the finished goods.

Margins susceptible to foreign exchange fluctuations - With VAPL importing a substantial portion of its raw material, its margins remain susceptible to adverse movements in foreign exchange. However, judicious hedging practices undertaken by the company provide some cushion against the said risk.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Fertilizer Industry

About the company:

Incorporated in the year 2003, Vanita Agrochem (India) Private Limited manufactures agro inputs (water soluble fertilisers and micro nutrients). The company is promoted by Mr. Netaji Powar. The company provides a wide range of branded agro inputs in the form of water soluble fertilisers, micronutrients and plant growth regulators. The manufacturing plant is located at Ichalkaranji (Maharashtra), with annual capacity of 10,000 metric tonnes. The company is also engaged in manufacture of chemicals required for specialised applications such as water treatment and other industrial chemicals.

In FY2018, the company reported a net profit of Rs. 11.1 crore on an operating income of Rs. 163.2 crore, as compared to a net profit of Rs. 12.2 crore on an operating income of Rs. 162.0 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	162.0	163.2
PAT (Rs. crore)	12.2	11.1
OPBDIT/ OI (%)	13.5%	12.5%
RoCE (%)	43.0%	30.5%
Total Debt/ TNW (times)	0.2	0.2
Total Debt/ OPBDIT (times)	0.5	0.5
Interest coverage (times)	9.1	11.0
NWC/ OI (%)	24.9%	21.6%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating November 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 January 2018	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 October 2015
1	Fund Based – Cash Credit	Long Term	32.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
2	Fund Based – Term Loan	Long Term	2.76	2.76	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
3	Non Fund Based	Short Term	1.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	32.00	[ICRA]BBB(Stable)
NA	Term Loan – 1	April 2014	12.5%	March 2020	2.14	[ICRA]BBB(Stable)
NA	Term Loan – 2	April 2016	12.5%	March 2023	0.62	[ICRA]BBB(Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA]A3+

Source: Vanita Agrochem (India) Private Limited

ICRA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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