

April 07, 2021

Rama Phosphates Limited: [ICRA]BBB+ (Stable)/ [ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-Term - Fund Based Limits	10.00	[ICRA]BBB+ (Stable); assigned
Short-Term - Non-Fund Based Limits	05.00	[ICRA]A2; assigned
Total	15.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in the established presence of Rama Phosphates Limited ('RPL') as a manufacturer of single super phosphate across the states of Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Uttar Pradesh and Haryana. ICRA notes that its three manufacturing plants, stationed across Madhya Pradesh, Maharashtra and Rajasthan, provide good access to vast end-user markets. The ratings also favourably consider the extensive experience of the promoters with more than five decades in the fertiliser and chemicals business. The ratings also take into account the diversified product portfolio comprising phosphate fertilisers, sulphuric acid and soya based products as well as its highly integrated operational structure which enables cost competitiveness. The ratings also take into consideration the comfortable capital structure as well as adequate debt coverage indicators led by healthy cash accretion and net worth, along with modest debt levels due to absence of long-term debt. ICRA notes that the company has undertaken capex of ~Rs. 35 crore in FY2021 which got commissioned in February 2021, primarily for expanding its sulphuric acid manufacturing facilities and setting up LABSA and phospho gypsum plants. The capex was funded entirely through internal accruals and as part of the company's backward and forward integration plans, is expected to improve the topline as well as reduce manufacturing costs, going forward.

The ratings, however, remain constrained by RPL's modest profitability margins led by low value addition involved in its soya business; nevertheless, the profitability in its fertilisers and chemicals segments remains healthy. ICRA also notes the vulnerability of the company's scale of operations and profitability to agro-climatic conditions and vagaries in crop cultivation. Further, the company's operations also remain vulnerable to adverse fluctuations in raw material prices for production of SSP and foreign exchange rates. The ratings further consider that being in the fertilisers business, the company's operations also remain exposed to regulatory risk.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that RPL will continue to benefit from extensive experience of the promoters in the fertilisers and chemicals segments.

Key rating drivers and their description

Credit strengths

Established presence of RPL in the SSP segment with strong distribution network; Extensive experience of promoters in the fertilisers and chemicals segment – The company is promoted by the Ramsinghani family, who have extensive experience in the fertiliser and seeds industry. RPL enjoys an established presence in Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Uttar Pradesh and Haryana with its established network of dealers and distributors. The company's trademark brands, 'Suryaphool' and 'Girnar' are well recognised in the farming community. Further, the company's manufacturing plants' strategic locations across Madhya Pradesh, Maharashtra and Rajasthan also provide better access to vast end-user markets

Diversified product portfolio comprising phosphatic fertilisers, sulphuric acid and soya based products – The company has a diversified product mix consisting of SSP fertilisers, sulphuric acid and its derivatives and soya based products. RPL also

manufactures fortified SSP fertilisers which include zincated and boronated SSP and micronutrients such as magnesium sulphate. Sulphuric acid manufactured at its Indore and Pune plants, is also partly used to meet its own requirements.

Highly integrated operational structure – The company has a total production capacity of 1,56,100 MT of sulphuric acid which enables backward integration as sulphuric acid is used as raw material for production of SSP. Further, the company has co-generation units at Indore and Pune plants where steam generated through exothermic reaction from burning of sulphur is used for generation of power which leads to savings in power expenses. The company has also commissioned LABSA plant at its Udaipur unit in February 2021 which is part of the backward integration. Spent sulphuric acid which is the by-product produced from LABSA plant is used as raw material for production of SSP, and thus, would reduce cost of manufacturing for SSP. Finally, with the newly installed plant for sulphuric acid at Indore, the company would have excess steam that would be utilised in the process of seed crushing to extract oil from soya seeds which would improve profitability for soya division.

Comfortable capital structure coupled with healthy coverage indicators – The net worth base of the company remains strong, which coupled with low debt levels has resulted in comfortable capital structure as reflected by gearing of 0.10 time as on September 30, 2020. Further, led by robust net cash accruals, the company's debt coverage indicators have remained healthy as reflected by Total Debt/ OPBITDA and interest coverage at 0.2 and 26.0 respectively in H1FY2021.

Credit challenges

Modest profitability due to low margin soya business; however, profitability in fertilisers and chemicals business remains healthy – The company's operating margins have remained modest over the years led by low value addition involved in the soya oil division. However, the profitability of its fertilisers and chemicals segment has remained healthy which witnessed further improvement in 9MFY2021 led by increased demand for fertilisers on account of healthy monsoon in the country.

Exposure to volatility in raw material prices of SSP and foreign exchange rates – Prices of key raw materials such as rock phosphate and sulphuric acid have linkages with the global market and exhibit volatility with change in international prices as well as foreign exchange rates. Since RPL needs to maintain adequate inventory due to the seasonal nature of the fertiliser industry, the stocked inventory is exposed to inventory price risk, given the volatility in raw material prices.

Dependence of fertilizer and soya segment operations on the vagaries of monsoon and crop cultivation – The fertiliser division's operations and profitability remain susceptible to agro-climatic conditions since the demand for fertilisers in India is generally influenced by the monsoons, as irrigation coverage continues to remain low. Further, operations of its soya division also remain vulnerable to vagaries of crop cultivation in the country.

Regulated nature of the fertiliser industry – Being in the fertiliser industry, RPL operates in a highly regulated industry as the selling prices of its products are dependent upon the subsidy allocated by the Government of India to various nutrients. The company's operations, thus, remain exposed to any sharp variations in the subsidy amount and delays in receipt of the same, apart from any other regulatory intervention on product prices.

Liquidity position: Adequate

The company's liquidity remains adequate led by healthy cash accruals and sufficient buffer available in the form of undrawn working capital limits. The average working capital utilization stood low at 27% for the 13-month period ended February 2021 on account of faster realisation of subsidy from government of India. Further, the company has not availed any long-term debt while it does not plan to avail any additional term loans for future capex plans. Thus, debt repayments are expected to remain nil in the medium term.

Rating sensitivities

Positive factors – Successful ramp up in operations of the newly commissioned plants coupled with improved profitability and comfortable working capital cycle.

Negative factors – Lower than expected ramp up in revenues or decline in operating margins resulting in significantly lower than expected accruals. Further stretch in working capital cycle or large debt-funded capital expenditure weakening capital structure could also be negative for the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Fertiliser Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

RPL is engaged in manufacturing phosphatic fertilisers viz. single super phosphate (SSP), fortified fertilizers namely boronated SSP as well as sulphuric acid and its derivatives. It also has a soya oil division which is engaged in extraction of soya oil. RPL markets its fertilisers under the brands 'Suryaphool' and 'Girnar' in the states of Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Uttar Pradesh and Haryana. The company's facilities at Indore, Pune and Udaipur have a combined manufacturing capacity of 563,000 tonne per annum (tpa) of SSP, 156,100 tpa of sulphuric acid and 120,000 tpa of soya oil.

As per H1 FY2021 provisional estimates, RPL reported a net profit of Rs. 17.9 crore on an OI of Rs. 220.1 crore, against a net profit of Rs. 17.7 crore on an OI of Rs. 448.4 crore in FY2020.

Key financial indicators (audited)

ICTIPL Consolidated	FY2019	FY2020	H1FY2021
Operating Income (Rs. crore)	606.7	448.4	220.1
PAT (Rs. crore)	19.4	17.7	17.9
OPBDIT/OI (%)	7.1%	6.0%	12.4%
RoCE (%)	22.0%	14.4%	29.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8	0.5
Total Debt/OPBDIT (times)	0.6	0.9	0.2
Interest Coverage (times)	5.5	9.7	26.0
DSCR (times)	2.8	4.1	13.4

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument			Current Rating (FY2022)		Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					07-Apr-2021	-	-	-	
1	Fund Based Limits	Long-Term	10.00	-	[ICRA]BBB+ (Stable)	-	-	-	
2	Non-Fund Based Limits	Short-Term	05.00	-	[ICRA]A2	-	-	-	

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 [click here](#)

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	Fund Based Limits	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)
NA	Non-Fund Based Limits	NA	NA	NA	05.00	[ICRA]A2

Source: Company

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