

July 28, 2022

Rama Phosphates 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 limits	50.00	50.00	[ICRA]A-(Stable); reaffirmed
Short term – non-fund-based limits	22.00	22.00	[ICRA]A2+; reaffirmed
Long term/Short term – Unallocated	-	63.00	[ICRA]A-(Stable)/[ICRA]A2+; assigned
Total	72.00	135.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider Rama Phosphates Limited's (RPL/the company) established presence as a manufacturer of single super phosphate across Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Uttar Pradesh and Haryana. ICRA notes that RPL's three manufacturing plants across Madhya Pradesh, Maharashtra and Rajasthan provide good access to vast end-user markets. ICRA also takes note of the improvement in financial performance in recent years, supported by a ramp-up in capacity utilisation of the new capacities added in recent years and a change in product mix towards more value-added products.

The ratings favorably consider the extensive experience of the promoters of more than five decades in the fertiliser and chemical business along with a 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 and adequate debt coverage indicators, led by healthy cash accretion and net worth, although there was some increase in the debt levels in FY2022 due to the higher working capital requirements. ICRA notes that the company is in the midst of a greenfield project capex of ~Rs. 50.0 crore, of which ~Rs. 22 crore was incurred in FY2022 and the remaining is expected to be completed in FY2023, for which the company plans to avail a term loan of Rs. 25 crore.

The company had also taken on lease additional capacity for single super phosphate (SSP) in January 2022. Despite the debt-funded capex plans and high working capital requirement due to elevated raw material and product prices, the capital structure and coverage indicators are expected to remain comfortable in the medium term.

The ratings, however, remain constrained by the vulnerability of the company's scale of operations and profitability to agro-climatic conditions and the vagaries of crop cultivation. Further, the company's operations remain vulnerable to the adverse fluctuations in raw material prices and foreign exchange rates. Moreover, being in the fertiliser business, the company's operations remain exposed to regulatory risks.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that RPL's credit profile will continue to be supported by the company's established track record in the fertiliser and chemical segments and the expected ramp-up in the scale of operations with the completion of planned projects/improved utilisation of recently added capacities in the near to medium term.

Key rating drivers and their description

Credit strengths

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

Diversified product portfolio – 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 large in-house production capacity for sulphuric acid which enables backward integration as sulphuric acid is used as a raw material to produce SSP. Further, the company has co-generation units at its Indore and Pune plants where the steam generated through exothermic reaction from burning sulphur is used to generate power, leading to savings in power expenses. The excess steam from the Indore unit is also used for the soya division. The company has taken additional SSP capacity on lease in Q4 FY2022 and is in the midst of a greenfield project for additional SSP and sulphuric acid capacity.

Comfortable capital structure and healthy coverage indicators – The company's capital structure was characterised by low gearing of 0.0-0.2 times during FY2019 to FY2021, with debt mainly comprising moderate working capital debt. The gearing witnessed some increase as on March 31, 2022 to 0.2 times from 0.0 times as on March 31, 2021 due to the increase in working capital debt requirements following the sharp increase in raw material and product prices, although the capital structure remained comfortable.

Further, led by robust net cash accruals, the company's debt coverage indicators have remained healthy, reflected in total debt/ OPBITDA of 0.4 times and interest coverage of 21.9 times in FY2022 compared with 0.1 times and 28.7 times, respectively, in FY2021.

Credit challenges

Volatility in raw material prices and foreign exchange rates - Prices of key raw materials such as rock phosphate and sulphuric acid are linked to the global market and exhibit volatility with the change in international prices and foreign exchange rates. As 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.

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

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

Modest profitability of soya business - While the company's OPM has witnessed healthy improvement in the last two years, supported by the fertiliser and chemical divisions, the margins of the soya oil division continue to be subdued due to low value addition.

Liquidity position: Adequate

The company's liquidity remains adequate to meet its moderate repayment obligations in FY2023 and FY2024, supported by expected cash accruals and availability of unutilised working capital limits. While the average working capital utilisation of the fund-based limits was low at 38% for the 12-month period ended May 2022, the peak utilisation was around 89% in May 2022. The company is currently implementing a greenfield capex of around ~Rs. 50 crore for which it plans to avail a term loan of ~Rs. 25 crore in FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to demonstrate a sustained improvement in scale and profits following the timely commissioning of the new greenfield project while maintaining the working capital cycle.

Negative factors – A lower-than-expected ramp-up in revenues or a significant decline in profits on a sustained basis resulting in significantly lower accruals could prompt a negative rating action. Further, a stretch in the working capital cycle or larger than-expected debt-funded capital expenditure weakening the liquidity profile could also put negative pressure on the ratings.

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 manufactures phosphatic fertilisers viz. single super phosphate (SSP), fortified fertilisers namely boronated SSP as well as sulphuric acid and its derivatives. It also has a soya oil division which is engaged in the extraction of soya oil. RPL markets its fertilisers under the Suryaphool and Girnar brands in Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Uttar Pradesh and Haryana. The company's facilities at Indore, Pune, Udaipur and Nimbahera have a combined manufacturing capacity of 698,000 tonnes per annum (tpa) of SSP, 211,100 tpa of sulphuric acid and 120,000 tpa of soya oil.

Key financial indicators (audited)

	FY2020	FY2021	FY2022
Operating income (Rs. crore)	448.4	580.5	878.3
PAT (Rs. crore)	17.7	42.1	70.0
OPBDIT/OI (%)	6.0%	10.5%	13.3%
PAT/OI (%)	3.9%	7.3%	8.0%
Total outside liabilities/Tangible net worth (times)	0.8	0.5	0.6
Total debt/OPBDIT (times)	0.9	0.1	0.4
Interest coverage (times)	9.7	28.7	21.9
DSCR (times)	4.1	15.5	15.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; 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	Type	Amount rated (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years				
				Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					July 28, 2022	June 30, 2022	19-Apr-2021	07-Apr-2021		
1	Fund Based Limits	Long-Term	50.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-	-
2	Non-Fund Based Limits	Short-Term	22.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-	-
3	Unallocated	Long-Term and Short-Term	63.00	-	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term - fund-based limits	Simple
Short term - non-fund-based limits	Simple
Long term/Short term – Unallocated	Not Applicable

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: 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	Fund Based Limits	NA	NA	NA	50.00	[ICRA]A-(Stable)
NA	Non-Fund Based Limits	NA	NA	NA	22.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	63.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

Please click [here](#) to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Sai Krishna
+91 22 6114 3435
sai.krishna@icraindia.com

Chirag Mehta
+91 22 6114 3423
chirag.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50



Branches



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