

September 07, 2023

Rama Phosphates Limited: Ratings reaffirmed

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	63.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	135.00	135.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings factor in Rama Phosphates Limited's (RPL/the company) established presence as a manufacturer of single super phosphate (SSP) fertiliser across Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Uttar Pradesh and Haryana. 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. Owing to the increase in the working capital requirements in FY2023, there has been moderation in the credit metrics, although the overall credit profile remains comfortable. Going forward in FY2024, with expectation of the moderation in the input prices, the working capital requirements are expected to moderate resulting in improvement in the overall credit profile. ICRA also notes that the company is in the midst of a greenfield project capex of ~Rs. 50.0 crore, of which ~Rs. 30 crore was incurred until FY2023, and the remaining is expected to be completed in FY2024-FY2025, for which the company plans to avail a term loan of ~Rs. 25 crore.

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 along with regulatory risks given the highly regulated nature of the fertiliser industry.

The Stable outlook on the long-term 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 the 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 location 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. However over the last two fiscals driven by elevated input prices, the working capital requirements had risen which led to an increase in the working capital borrowings and moderation in the credit profile. While the company's debt coverage indicators have moderated, they remain healthy, reflected in total debt/ OPBITDA of 1.6 times and interest coverage of 8.6 times in FY2023 compared with 0.5 times and 10.7 times, respectively, in FY2022. Going forward the working capital requirements are expected to ease given the easing of the input prices and thus have a favorable impact on the credit profile.

Credit challenges

Volatility in the 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 - The company operates in the fertiliser industry which is highly regulated and dependent on the subsidy levels announced by the GoI and timeliness of the release of the subsidy receivables. The profitability of the company remains exposed to the subsidy announced by the GoI which may sometime remain inadequate to ensure adequate profitability for the company. Additionally, the working capital cycle of the company remains exposed to the timeliness of the subsidy release by the GoI.

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.

Environmental and Social Risks

Environmental considerations: 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, given the country's import dependence as well as the time taken by the end consumers to accept new products.

Social considerations: Rising awareness about the use of chemical fertilisers in farming and the growing clamour for organic produce can impact fertiliser offtake. The productivity of organic farming remains low at present and, thus, the near-term risk to fertiliser offtake is low. Going forward, in a scenario of technological breakthroughs resulting in organic alternatives with equal or better productivity can pose a significant threat to fertiliser offtake, although the threat remains long-term in nature.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate going forward given the expectation of healthy cash flow from operations amid stable profitability, lower working capital requirements amid moderating input prices and minor debt repayments going forward. The average monthly utilization of fund-based limits was moderate at ~70% for the 12 months ending June 2023. The company's liquidity position is also supported by the Inter Corporate Deposits available from group companies to support the working capital requirements. Going forward the company will be availing a term loan to the extent of Rs. 25 crore to fund part of the ongoing capex plan which will keep the liquidity position adequate.

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)

RPL Standalone	FY2022	FY2023
Operating income	878.3	874.8
PAT	70.0	40.9
OPBDIT/OI	12.8%	8.5%
PAT/OI	8.0%	4.7%
Total outside liabilities/Tangible net worth (times)	0.6	0.7
Total debt/OPBDIT (times)	0.5	1.6
Interest coverage (times)	10.7	8.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
				Sep 07, 2023	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]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	[ICRA]A2	-
3 Unallocated	Long term and short term	63.00	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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