April 19, 2021

Rama Phosphates Limited: [ICRA]BBB+ (Stable)/ [ICRA]A2 assigned to the enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term - Fund Based Limits	10.00	50.00	[ICRA]BBB+ (Stable); outstanding/ assigned
Short-Term - Non-Fund Based Limits	05.00	22.00	[ICRA]A2; outstanding/ assigned
Total	**15.00**	**72.00**	

**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 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 of phosphate fertilisers, sulphuric acid and soya-based products as well as its highly integrated operational structure, which enables cost competitiveness. The ratings further 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 was 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, it is expected to improve the top line as well as reduce manufacturing costs.

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 single super phosphates (SSP) and foreign exchange (forex) rates. The ratings further consider that being in the fertilisers business, the company's operations remain exposed to regulatory risk.

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

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 sectors – 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 of phosphatic fertilisers, sulphuric acid and soya-based products – The company has a diversified product mix of SSP fertilisers, sulphuric acid and its derivatives as well as 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 its Indore and Pune plants where steam generated through exothermic reaction by burning sulphur is used for generating power, which leads to savings in its power expenses. The company has also commissioned an LABSA plant at its Udaipur unit in February 2021, which is part of its backward integration exercise. Spent sulphuric acid, a by-product from the LABSA plant, will be used as raw material for producing SSP, thus, reducing the 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 for crushing seeds to extract oil from soya seeds, which would improve the profitability for the 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 times, respectively, in H1 FY2021.

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 9M FY2021 led by increased demand for fertilisers on account of the healthy monsoon in the country.

Exposure to volatility in raw material prices of SSP and forex 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 forex 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 fertiliser and soya segment operations on monsoonal vagaries 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 utilisation stood low at 27% for the 13-month period ended February 2021 on account of faster realisation of subsidy from the Government. Further, the company has not availed any long-term debt and neither does it 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, could trigger an upward rating movement.

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

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., SSP, fortified fertilisers, namely boronated SSP, as well as sulphuric acid and its derivatives. It also has a soya oil division 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 5,63,000 tonne per annum (tpa) of SSP, 1,56,100 tpa of suphuric acid and 1,20,000 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
					19-Apr-2021	**07-Apr-2021**	**-**	**-**
1	Fund Based Limits	Long-Term	50.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Non-Fund Based Limits	Short-Term	22.00	-	[ICRA]A2	[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 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]BBB+ (Stable)
NA	Non-Fund Based Limits	NA	NA	NA	22.00	[ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 12 4454 5304
sabyasachi@icraindia.com

Ankit Patel
+91 79 4027 1509
ankit.patel@icraindia.com

Viraj Kadwadkar
+91 22 6114 3457
viraj.kadwadkar@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

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.

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.

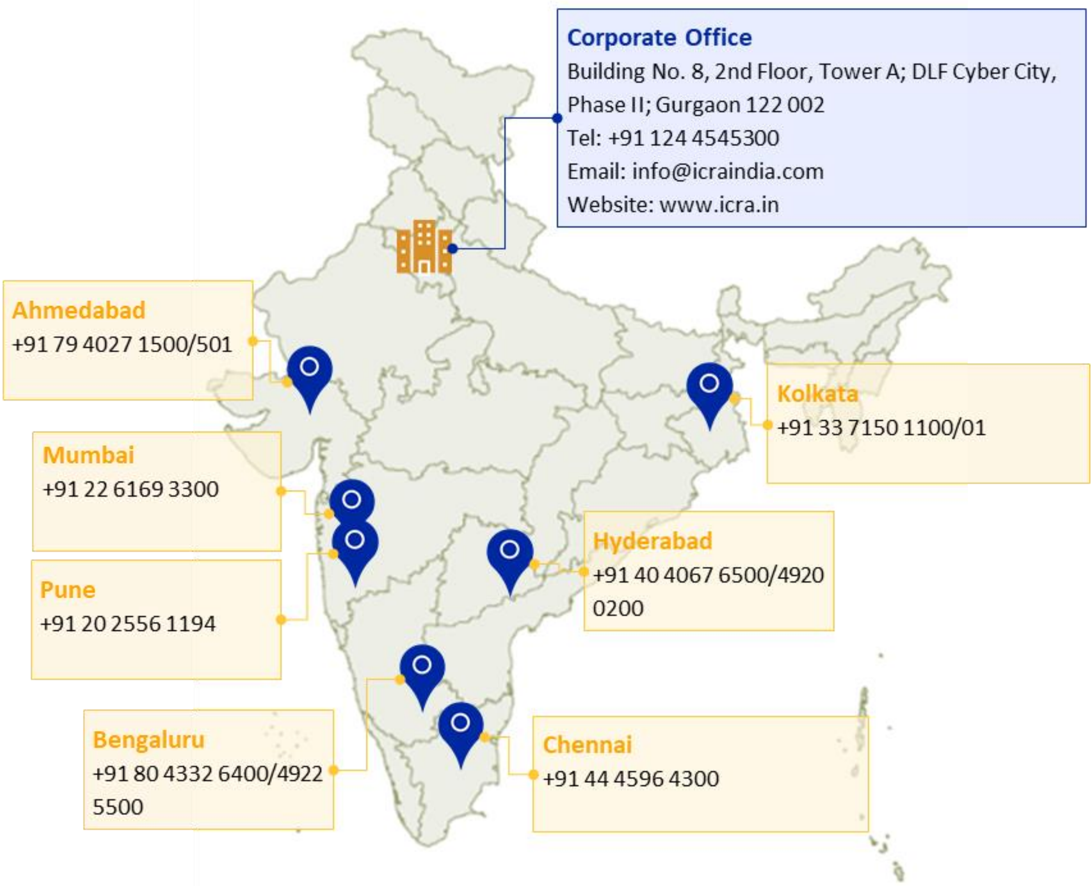
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.