February 24, 2020

Robust Marketing Services Private Limited (RMSPL): Provisional rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-convertible Debenture Programme	330.00	Provisional [ICRA]BB+(Stable); Assigned
Total	**330.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned provisional rating is based on the draft term sheet for the proposed NCD programme shared with ICRA, expectation of continued support from the promoters, long track record of the group entity Deepak Fertilisers & Petrochemicals Corporation Limited (DFPCL, rated [ICRA]A+(Stable)/[ICRA]A1) in the chemicals and fertilisers business and monetisation plans for a large land parcel in Mangalore owned by RMSPL. ICRA also notes that a group entity Nova Synthetic Limited (NSL) will be issuing an irrevocable and unconditional corporate guarantee backing the NCD program. However, due to various deficiencies in the corporate guarantee, ICRA has not factored in the same while assigning the ratings. The ratings however are constrained by the weak standalone financial profile of RMSPL, vulnerability of DFPCL's performance to commodity cycles and the large debt funded capex being undertaken by DFPCL which exposes the group to financing and execution risks. DFPCL's fertiliser business also remains exposed to regulatory and agro-climatic risks. The funds being raised will be used by RMSPL to complete the purchase of warrants issued to it by DFPCL.

The rating assigned is provisional as of now (as denoted by the word, Provisional, mentioned with the rating symbol) and is subject to the fulfilment of all the conditions under the term sheet and the review of the final documentation of the instrument rated by ICRA, besides the executed actions/documentation being in line with ICRA's expectations. The final rating may differ from the provisional rating if the completed actions/documentation are not in line with ICRA's expectations.

Key rating drivers and their description

Credit strengths

Support from promoters in the form of interest free unsecured loans- RMSPL owns two residential properties which have been let out and the company derives lease rental income from the same. The company also owns a land parcel (~171 acre) in Mangalore which it is looking to monetise. The company is promoted by Mr Sailesh Chimanlal Mehta and Mrs Parul Mehta, the promoters of DFPCL. On a standalone basis the financial risk profile of RMSPL remains weak. However, the promoters have provided support to the entity to meet its funding requirements in the form of interest free loans in the past. ICRA expects the support from the promoters to continue going forward to meet any funding shortfall as operating cash flows of RMSPL will remain insufficient to meet the funding requirements of the current NCD issue. Additionally, the asset cover provided for the proposed NCD issue includes assets of RMSPL which have been funded using promoter funds. The promoters are also providing their personal guarantee besides which another promoter entity Nova Synthetic Limited is providing a corporate guarantee for the NCD issue.

Healthy financial flexibility of the group- The group comprising of DFPCL, RMSPL and NSL has healthy financial flexibility. DFPCL is in the midst of raising equity to fund its capex plans that include setting up of plants for manufacture of ammonia, Iso-Propyl Alcohol (IPA) and Technical Ammonium Nitrate (TAN) under different group entities. The Company has been able to bring in marquee investors like International Finance Corporation (IFC) which have invested $30 million (in DFPCL and Smartchem Technologies Limited) through a Compulsorily Convertible debentures (CCDs).

Long track record of Deepak Fertilisers & Petrochemicals Corporation Limited (DFPCL) in the chemicals and fertiliser space- DFPCL has a strong market position in existing chemical businesses of ammonium nitrate, nitric acid and IPA. DFPCL is one of the leading players of TAN in the domestic market. The company is also the sole producer of IPA in the domestic market and caters to 75¬80% of the domestic demand. DFPCL is also the leading manufacturer of concentrated nitric acid (CNA) in the domestic market. The company is expanding its capacities in all its key segments, viz. TAN, IPA and nitric acid, which would allow it to maintain its dominant position in the domestic market. The company has also received environmental clearance (EC) for enhancing its fertiliser production to 1.1 million MTPA from 0.6 million MTPA.

Large land bank in Mangalore which the company plans to monetise- RMSPL's operating cash flows remain inadequate to meet the interest and principle repayment of the NCD. With the group focusing on monetising non-core assets to infuse equity funding for the ongoing capex, RMPSL plans to sell its non-agricultural land parcel of 171 acres in Mangalore. The timely monetisation of this land parcel will be imperative for redemption of the NCDs and the same will remain a key rating sensitivity.

Credit challenges

Weak financial risk profile of RMSPL on a standalone basis- RMSPL has two residential properties which have been let out and receive rental income. On a standalone basis, the financial risk profile of the company remains weak given the limited revenue inflow. Going forward the company will need support from the promoters to service the interest for the proposed NCD program.

Large debt funded capex being undertaken by group companies exposes the group to financing and execution risks- DFPCL is setting up capacities for IPA, TAN and ammonia at a combined cost of about Rs. 5,270 crore which is to be funded in a debt to equity ratio of 70:30. The company has achieved financial closure for the proposed ammonia plant (debt of Rs. 2,044 crore tied-up) and plans to commission the project by H1 FY2022. The company has purchased key equipment for the ammonia and TAN project. It has spent about Rs. 700 crore of its own funds towards these projects so far. The company remains exposed to project execution risks and any material cost or time overrun would be a key rating sensitivity. The ammonia project has received Environmental Clearance (EC) and the Consent to establish (CTE) is expected in Q1 FY2021. For the TAN Project EC has not been received as yet. Any significant delays in the completion of projects same would impact the overall returns given the sizeable funds already infused. The company also plans to raise additional equity funds to meet part of the equity commitment for the aforementioned projects and timely conclusion of the equity raising programme would be critical from a credit perspective. ICRA expects the off-take risks for these projects to be limited, though the company's ability to achieve the design parameters post-commissioning and ramp up operations in a timely manner would remain important.

DFPCL's profitability remains vulnerable to commodity cycles- DFPCL has witnessed volatility in the commodity prices which have affected the performance of the company in the recent past. The decline in the IPA prices due to cheaper Chinese imports resulted in lower IPA sales for the company in 9M FY2020. Additionally, TAN sales were impacted due to weak cement demand and infrastructure development coupled with subdued mining activity. The profitability margins of the company remain exposed to the cyclicality in input prices and the company's ability to pass on the same to the customers. In FY2019, the company's fertiliser business was impacted by shortage of phosphoric acid as its key supplier had reduced its production.

While the company has subsequently diversified its supplier base, it still remains exposed to any such shutdowns from its key suppliers.

Fertiliser business of the group remains exposed to regulatory and agro-climatic risks- The company's fertiliser business operates in a regulated environment. The selling prices of its products remain dependent on the subsidy allocated by the GoI to the various nutrients. The company thus remains exposed to any sharp variation in the subsidy amount and delays in receipt of the same, apart from any other regulatory interventions on the product prices. The increase in the prices of phosphoric acid and ammonia led to losses for the company's fertiliser business in FY2019. The performance of the fertiliser segment had remained weak till H1 FY2020 due to the delay in the monsoons and the plant running at lower capacity as the EC clearance for incremental capacity was received in September 2019 only. ICRA also notes the regulatory overhang with regard to recovery of unintended benefits initiated by Department of Fertilizers against DFPCL for the usage of cheaper inputs than envisaged by the policy and quantum of recovery for the same will be a key rating sensitivity. Agro-climatic risk mainly related to the temporal and spatial distribution of the monsoon rainfalls plays a major role in the fertiliser industry. As was witnessed in FY2019, weak rainfall in the region of Maharashtra led to weak fertiliser offtake and losses for various companies operating in the region.

Liquidity position: Stretched

RMSPL's liquidity is expected to remain stretched owing to inadequate cash inflows from the leased-out properties to meet its repayment obligations for the proposed NCD programe. Continued promoter support in the form of interest free loan supports liquidity of the company.

Rating sensitivities

Positive triggers – Improved cash flows of the entity through higher than expected support from the promoters, improvement in the performance and credit profile of Deepak Fertilisers & Petrochemicals Corporation Limited, inclusion of structured payment mechanism ensuring a pre-default guarantee mechanism could result in improvement in the rating of RMSPL.

Negative triggers – Delay in the land monetisation plans beyond the repayment tenure of the NCDs resulting in cash flow mismatch could put downward pressure on the ratings. Any pullback in the support from the promoters will result in negative pressure on the rating. Lower than expected dividends and/or weakening of the credit profile of DFPCL will be a trigger for rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for holding companies
Parent/Group Support	Group Company: Deepak Fertilisers & Petrochemicals Corporation Limited Rating factors in implicit support from the group entity DFPCL
Consolidation/Standalone	The rating is based on standalone financials of RMSPL

About the company

Robust Marketing Services Private Limited (RMSPL) is engaged in leasing of properties and trading of shares. The company owns two properties, one in Delhi and the other at Mumbai which has been leased out. The company also owns a 171 acres land in Mangalore. The land was purchased to setup a petrochemical plant by the group company Deepak Fertilisers &

Petrochemicals Corporation Limited (DFPCL) though later the plan was shelved. The company owns 2,60,885 equity shares in DFPCL. The company has subscribed to warrants convertible to 64,76,983 equity shares of DFPCL.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1.0	0.7
PAT (Rs. crore)	-0.6	-0.6
OPBDIT/OI (%)	47.8%	48.6%
RoCE (%)	0.2%	0.0%
Total Outside Liabilities/Tangible Net Worth (times)	-5.5	-7.6
Total Debt/OPBDIT (times)	352.4	676.3
Interest Coverage (times)	0.5	0.4
DSCR	0.0	0.1

Source: ICRA estimates; OI: Operating Income; 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); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					24-Feb-2020	-	-	-	-
1	Proposed NCD	Long Term	330.0	NA	Provisional [ICRA]BB+ (Stable)	-	-	-	-

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Proposed NCD	-	-	-	330.0	Provisional [ICRA]BB+(Stable)

**source: RMSPL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

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About ICRA Limited:

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