Rama Phosphates Limited

January 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	55.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	22.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**77.00 (Rs. Seventy-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rama Phosphate Limited (RPL) continues to derive strength from experience of the promoters in Single Super Phosphate (SSP) segment of fertilizer industry, diversified product portfolio and established brand image with strong distribution network.

RPL reported decline of 25.96% in its Total operating income for FY20 from Rs 607.31 crore during FY19. The decline was on account of reduced sales volume from Soya and sulphuric acid division. The decrease in the volume is attributed to poor crop quality with high moisture content as well as subdued demand for de-oiled cake (DOC) in the international market and technical issues at the sulphuric acid plant which resulted in an extended shutdown of 60-65 days in first half of FY20. The operating loss incurred in soya division and low fertilizers margins in FY20 impacted the operating profit margin for the company. However, during H1FY21, company reported improved sales on account of robust demand for fertilizers owing to normal monsoon along with improved margins however Soya continued to underperform. Further, the debt coverage indicators like Total Debt to Gross Cash Accruals continued to remain moderate.

The rating strengths are, however, tempered by its relatively low operating profit margin, susceptibility of profitability to volatility in raw-material prices & foreign exchange fluctuations. Additionally, regulated nature of fertilizer industry and dependence of operation on the vagaries of monsoon also constrain the ratings.

Rating Sensitivities

Positive Factors

- Sustained ramp up in operations with healthy growth and improved profitability above 12% on sustained basis
- Improved working capital cycle and maintained financial risk profile, including liquidity

Negative Factors

- Lower than expected ramp up in revenue or a decline in operating margins below 4%, results in significantly lower than expected accruals
- Further stretch in working capital cycle or large debt-funded capital expenditure weakens capital structure

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter

RPL was promoted by Mr Daulat Jaisingh Ramsinghani and his family. He has experience of more than five-decades in the fertilizer industry. Mr H. D. Ramsinghani, currently the Chairman and Managing Director, has overall experience of more than three decades in the field of textile, petrochemicals and fertilizers. He is assisted by other qualified professional for the day-to-day management of the company.

Diversified product portfolio comprising phosphate fertilizers, sulphuric acid and soya based products

RPL has diversified product range of phosphate fertilizers consisting of Single Super Sulphate (SSP), mixed fertilizers namely nitrogen-potassium-phosphate (NPK), Zincated and Boronated Single Super Phosphate and micronutrients such as magnesium sulphate. The products of RPL are marketed in various states across the country under brand names viz. 'Girnar' and 'Suryaphool'. It also manufactures sulphuric acid, a key raw material used in manufacturing SSP at its plants in Indore and Pune, partly to meet its own requirements and also to sell in the market. In FY20, fertilizers sales improved from Rs. 310.25 crores in FY19 to Rs. 317.65 crores in FY20 and for sulphuric acid, sales declined from Rs. 90.57 crores in FY19 to Rs. 37.93 crores in FY20.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

RPL is also engaged in the manufacture of soya products such as soya oil, de-oiled cake etc. Revenue from the soya segment declined from Rs. 205.85 crore in FY19 to Rs. 92.85 crore in FY20.

Considerable presence of RPL in the SSP segment with strong distribution network

RPL has well established marketing network consisting of around 1,525 sales distributors across the states of Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Uttar Pradesh and Haryana who in turn supply to more than 12,500 dealers across the country. RPL has a strong brand recognition in these markers which translates into a healthy market share for SSP in these states. The market share of RPL in the SSP segment across various states is given below:

State	Madhya Pradesh	Maharashtra	Rajasthan	Gujarat	Karnataka	Uttar Pradesh	Haryana
Market Share	14%	14%	14%	8%	23%	5%	6%

Moderate scale of operation; Revenue De-growth in FY20 on back of muted demand for soya oil coupled with lower crop quality.

The Total Operating Income (TOI) of RPL registered a decline of 25.96% to Rs.449.66 crore in FY20 from Rs.607.31 crore during FY19. This was primarily due to decrease in the sales volume of Soya oil and sulphuric acid as compared to FY19. The decrease in the volume is attributed to poor crop quality with high moisture content as well as subdued demand for de-oiled cake (DOC) in the international market and technical issues at the sulphuric acid plant which resulted in an extended shutdown of 60-65 days in Q1FY20. Further, the primary consumption of DOC was as poultry feed but reduction in consumption of non-vegetarian food after the COVID outbreak led to lower demand for DOC in the international markets resulting in lower sales of DOC in H1FY21. Operating margins were impacted in FY20 primarily on account of operating loss incurred in the soya division as well as lower margin achieved in fertilizer division. During H1FY21, TOI registered de-growth of 6.43% on y-o-y basis on account of lower soya sales, however sales in fertilizer segment has shown improvement by 22.43% in H1FY21 on y-o-y basis. Nevertheless, CARE expects continued improvement in fertilizer sales in H2FY21 to cater to the Rabi crop. Further, soya season starts from October and lasts till March, thus, revenue from sale of soya oil and de-oiled cake is likely to boost RPL's sales in H2FY21.

Comfortable capital structure and adequate debt coverage indicators

RPL's capital structure continues to remain comfortable with the overall gearing ratio of 0.24 times as on March 31, 2020 as compared to 0.28 times as on March 31, 2019. This further reduced to 0.07 times as on September 30, 2020. CARE believes that in the absence of debt funded capex going forward, the gearing is likely to remain comfortable with debt comprising of working capital borrowings. Significant reduction in the interest expense on account of reduced working capital utilization in FY20 led to substantial improvement in the interest coverage of RPL from 5.20 times during FY19 to 9.08 times during FY20. Other debt coverage ratios also improved as on March 31, 2020 on account of the same reason.

Key Rating Weaknesses

Low profitability

Owing to negligible margins realized in the soya oil division at operating level, the blended PBILDT margin of the company remained low in the range of 5% – 7% in last two-years ending FY20. However, the blended PBILDT margin have improved to around 12.51% during H1FY21 owing to increased demand for fertilizers on account of normal monsoon all over the country. However, owing to low fixed costs, net profitability remained in the range of 3.0%-4.0% during the aforesaid period. Sustainability of margins above in range of 10-12% would remain monitorable.

Regulated nature of Industry

The fertilizer industry in India is highly regulated in nature with intervention of the Government of India in fixation and release of the subsidy amount. Thus, various government policies and subsidy fixation have an impact on the prospects of the industry players. The implementation of Direct Benefit Transfer (DBT) by the government for fertiliser subsidies across the country has improved the timeline of subsidy payable to the company.

Exposure to volatility in raw material prices and foreign exchange rates

The company imports a large portion of its raw material (rock phosphate) from foreign market, the prices of which are volatile due to its linkage with international prices. The company hedges around 25% of import for forex fluctuation through forward contract arrangement with the rest exposed to forex fluctuation risk.

Dependence of operation on the vagaries of monsoon

Both the oil and fertilizer business are related to agriculture and are dependent on monsoon. The erratic behaviour of rainfall could affect the prospects of both the divisions.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals of Rs.30-32 crore in FY21, against which company does not have any long term debt obligation. The average working capital utilization reduced to 28% during the past 12-months ended October 2020 from 36% in the 12 months ending October 2019. The lower utilization was on account of faster and complete realization of subsidy from GOI after the implementation of DBT. The company has cash balance of Rs. 0.85 crore as on March 31, 2020. Further liquidity is supported by healthy current ratio of 1.76.

Analytical approach: Standalone

Applicable Criteria

Criteria on rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Financial ratios - Non-financial Sector
Rating methodology - Fertilizer
Criteria for Short term Instruments
Liquidity Analysis of Non-Financial sector entities

About the Company

Rama Phosphates Limited was incorporated on September 03, 1984 by Mr D. J. Ramsinghani and family to manufacture phosphate-based fertilizers. Subsequently, the company also ventured into manufacturing of soya oil. Currently, the company has three manufacturing facilities based in Pune (Maharashtra), Indore (Madhya Pradesh) and Udaipur (Rajasthan). The company also undertakes manufacturing and trading activities in industrial chemicals viz. Sulphuric Acid and Magnesium Sulphate.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21 (UA)
Total operating income	607.31	449.66	220.41
PBILDT	41.15	25.15	27.58
PAT	19.39	17.67	17.87
Overall gearing (times)	0.28	0.24	0.07
Interest coverage (times)	5.20	9.08	26.36

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	18.87	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	3.13	CARE A3+
Fund-based - LT-Proposed fund based limits	-	-	-	5.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB; Stable	-	1)CARE BBB; Stable (25-Dec-19)	1)CARE BBB-; Stable (07-Jan-19)	1)CARE BBB-; Stable (29-Nov-17)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (07-Jan-19)	1)CARE BBB-; Stable (29-Nov-17)
3.	Non-fund-based - ST-Letter of credit	ST	18.87	CARE A3+	-	1)CARE A3+ (25-Dec-19)	1)CARE A3 (07-Jan-19)	1)CARE A3 (29-Nov-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	3.13	CARE A3+	-	1)CARE A3+ (25-Dec-19)	1)CARE A3 (07-Jan-19)	1)CARE A3 (29-Nov-17)
5.	Fund-based - LT-Proposed fund based limits	LT	5.00	CARE BBB; Stable	-	1)CARE BBB; Stable (25-Dec-19)	1)CARE BBB-; Stable (07-Jan-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Proposed fund based limits	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact-1
Rating Head Name: Sudarshan Shreenivas
Contact No: +91-22-6754 3566
Email ID- sudarshan.shreenivas@careratings.com

Analyst Contact-2
Group Head Name: Arti Roy
Contact No: +91-22-6754 3402
Email ID- arti.roy@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. +91-22-6754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**