Agro Phos (India) Limited

August 17, 2021

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	10.00 (Reduced from 17)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Reaffirmed
Short Term Bank Facilities	6.00	**CARE A4+ (A Four Plus)**	Reaffirmed
Total	**16.00 (Rs. Sixteen Crore Only)**		

Details of facilities in Annexure -1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Agro Phos (India) Limited (APIL) continue to remain constrained on account of its moderate scale of operations and profitability with working capital-intensive nature of operations during FY21 (FY; refers to the period April 1 to March 31). The ratings, further, continue to remain constrained on account of dependency of revenue on climatic conditions with risk regarding availability of raw material and foreign exchange rate fluctuation risk.

The ratings, however, continue to draw strength from experienced management with established track record of operations and established marketing network. The ratings, further, continue to derive strength from its comfortable capital structure and moderate debt coverage indicators.

Rating Sensitivities

Positive Factors

- *Growth in scale of operations more than Rs.110 crore with improvement in profitability marked by PBILDT margin of 12% or above*
- *Sustaining capital structure with overall gearing ratio below unity times*
- *Improvement in overall liquidity position with a working capital cycle to less than 130 days*

Negative Factors

- *Decline in scale of operations by more than 20%*
- *Decline in profitability position with PBILDT margin of less than 10%*
- *Deterioration in capital structure with overall gearing above 1.50 times*
- *Deterioration in overall liquidity position marked by further elongation in working capital cycle*

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations and profitability

APIL is engaged into the business of manufacturing and trading of Fertilizers. During FY21, the scale of operations of APIL declined however continued to remain moderate as marked by Total Operating Income (TOI) of Rs.60.21 crore during FY21 as against Rs.70.02 crore during FY20 owing to subdued demand of its product in addition to adverse effects of COVID-19 which also disrupted the operations during FY21.

The profitability position of the entity also continued to remain moderate as marked by PBILDT margin at 10.99% in FY21 as against 11.22% in FY20 mainly due to increase in the cost of raw material consumed during FY21, primarily phosphate rock. The net profit continued to remain moderate at 5.26% during FY21 as against 5.60% during FY20. Gross Cash Accruals (GCA) level remained moderate at Rs.3.46 crore during FY21.

Working capital intensive nature

Operations of APIL remained working capital intensive as marked by elongated operating cycle which deteriorated from 164 days in FY20 to 192 days in FY21 owing to increase in the inventory holding period from 148 days in FY20 to 189 days in FY21. APIL generally maintains higher inventory since 70% of materials is being imported. Average working capital limits utilization remained high at around 90% during past twelve months period ended July 2021.

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

Dependency of revenue on climatic conditions
The demand for fertilizers in general is influenced by the climatic conditions i.e. level of monsoons. In times of bad monsoons, off-take would be limited and stocks would pile up. This may result into increase in its working capital requirement and adversely affect the profitability margins of the company.

Risk regarding availability of raw material and foreign exchange rate fluctuation risk
Rock Phosphate being one of the important raw materials for manufacturing phosphatic fertilizers including Single Super Phosphate (SSP), is not presently available in large quantity in India and that too portion of high grade rock is limited. India meets almost 85% of its rock phosphate requirement through imports, even though the country, according to the Geological Survey of India, has an estimated 250 Million Tonnes (MT) reserves with 150 MT of it is expected to be in the fertilizer grade. India is dependent on imported feedstock (rock phosphate, phosphoric acid), as domestic capacities have not matched the growth in demand.
APL imports Rock Phosphate mainly from Egypt, Algeria and Jordan. Due to the limitation of source of rock phosphate and availability issue, the prices of rock phosphate has witnessed fluctuating trend, also rising trend in the price of rock phosphate in the international market due to COVID19 worldwide pandemic, the availability of rock phosphate for manufacturing of SSP has been affected.

Key Rating Strengths
Experienced management with established track record of operations
Indore (Madhya Pradesh) based APIL was initially formed in 2001 as a partnership concern, while it is currently listed as a public limited company on NSE main board.
Mr. Raj Kumar Gupta, Managing Director, has around two decades of work experience in the fertilizer industry. He looks after business development and management of overall business as well as financial operations of the company. Mr. Vishnu Kant Gupta, director, has around one decade of experience in the industry and looks after production and finance functions of the company.

Established marketing and distribution network of its products
The company sells its products to cooperative societies as well as dealers located in Madhya Pradesh, Maharashtra and Chhattisgarh. The company sells its products under its own brand name of “Smriddhi”, “Swaraj” and “Ratna”. AIPL has appointed around 200 dealers, 18 marketing team and 12 warehouses for sale of its products. It also sells its product through Indian Potash Limited.

Comfortable capital structure and moderate debt coverage indicators
The capital structure of the company improved, however continued to remain comfortable as marked by an overall gearing ratio of 0.36 times as on March 31, 2021 as against 0.47 times as on March 31, 2020 due to decrease in the total debt level led by lower utilization of working capital bank borrowing as on March 31, 2021. Also, the sanctioned cash credit limit has been reduced to Rs.10.00 crore from earlier limit of Rs.17.00 crore since November, 2020. Tangible net worth stood at Rs.41.61 crore as on March 31, 2021.
The debt coverage indicators of APIL deteriorated marginally however continued to remain moderate marked by total debt to Gross Cash Accruals (TDGCA) of 4.27 years as on March 31, 2021 as compared to 3.74 years as on March 31, 2020 on account of decrease in the GCA level led by a decrease in the scale of operations. Furthermore, interest coverage remained moderate at 3.39 times during FY21 in line with 3.46 times during FY20.

Impact of COVID-19 on business operations of APIL
Due to nationwide lockdown declared by the Government on account of COVID-19 pandemic, the business operations had been halted from March 23, 2020 to March 31, 2020. However, its final products being essential commodities, APIL resumed its operations from April 01, 2020 and has not faced any labour shortage since then, as it had accommodated the labourers in the premises itself. During H1FY21, however, APIL had faced difficulty in import of its key raw material rock phosphate due to COVID-19. Also, the prices of the same increased due to challenges in imports due to COVID19 pandemic. However, during H2FY21 APIL had not faced any major disruptions regarding the same.

Liquidity: Adequate
The liquidity position of the company remained adequate as marked by moderate current ratio at 2.24 times as on March 31, 2021 as against 1.65 times as on March 31, 2020 led by a decrease in outstanding trade payables as on balance sheet date.
The net cash flow from operating activities also improved and remained at Rs.8.19 crore during FY21 as against Rs.4.21 crore during FY20 led by faster recovery from the receivables.

Unencumbered cash and bank balance remained modest at Rs.1.01 crore as on March 31, 2021. GCA level remained at Rs.3.46 crore during FY21 as against principal debt repayments of Rs.0.50 crore arising in FY22.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Liquidity Analysis of Non-Financial Sector Entities]
[Criteria for Short Term Instruments]
[Rating Methodology - Manufacturing Companies]
[Rating Methodology - Fertilizer Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Indore (Madhya Pradesh) based Agro Phos (India) Limited (APIL) was initially formed in 2001 as a partnership concern in the name of Agro (Phos) India by Mr. Raj Kumar Gupta and Mr. Virendra Kumar Gupta. Further, in 2002, it was converted into private limited company and thereafter the company changed its constitution from private limited to closely held public limited company in March, 2004. As on March 31, 2019, it has shifted from NSE SME (NSE Emerge) platform to the main board of NSE.
APIL is engaged in manufacturing of fertilizers such as Single Super Phosphate (SSP), Nitrogen Phosphorus and Potassium (NPK), Zinc Sulphate (ZS), Organic Manure and Calcium Sulphate commonly known as soil conditioner. The company is also engaged in trading of fertilizers like Diammonium Phosphate (DAP), Urea and Ammonium Sulphate and agriculture commodities. The manufacturing facilities of the company are located at Dewas and Meghnagar, Madhya Pradesh.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	70.03	60.21
PBILDT	7.86	6.62
PAT	3.92	3.17
Overall gearing (times)	0.47	0.36
Interest coverage (times)	3.46	3.39

A: Audited

Till Q1FY22 (Unaudited), APIL has reported TOI of around Rs.21.29 crore.

Status of non-cooperation with previous CRA: ICRA has suspended rating assigned to the bank facilities of APIL vide press release dated November 07, 2014 on account of non-cooperation by APIL with ICRA's efforts to undertake a review of the ratings outstanding.
Brickwork Ratings has put ratings assigned to the bank facilities of APIL in to 'Non-Cooperation' vide press release dated April 16, 2021 on account of non-cooperation by APIL with Brickworks' efforts to undertake a review of the ratings outstanding.

Any other information: Not Applicable

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

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	-	-	-	10.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A4+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+; Stable	-	1)CARE BB+; Stable (29-Sep-20)	1)CARE BB+; Stable (23-Aug-19) 2)CARE BB+; Stable; ISSUER NOT COOPERATING* (03-Apr-19)	1)CARE BB+; Stable (18-Oct-18) 2)CARE BBB-; Stable (02-Apr-18)
2.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A4+	-	1)CARE A4+ (29-Sep-20)	1)CARE A4+ (23-Aug-19) 2)CARE A4+; ISSUER NOT COOPERATING* (03-Apr-19)	1)CARE A4+ (18-Oct-18) 2)CARE A3 (02-Apr-18)

Annexure 3: 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.	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.*

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About CARE Ratings:
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