

Agro Phos (India) Limited

December 06, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|------------------|---------------------|---------------|
| Long Term Bank Facilities | 10.00 | CARE BBB-; Stable | Reaffirmed |
| Short Term Bank Facilities | 6.00 | CARE A3 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Agro Phos (India) Limited (APIL) continue to derive strength from its growing albeit moderate scale of operations during FY23 (Audited; refers to period from April 01 to March 31) and H1FY24 (Provisional; refers to period from April 01 to September 30), established marketing & distribution network, comfortable capital structure and moderate debt coverage indicators and adequate liquidity position. The ratings also factor in experienced management with established presence in the fertilizer industry.

The ratings, however, continues to remain constraint on account of moderate profitability, its concentrated product portfolio, presence in regulated industry with agro climatic risk and exposure of profitability to volatility in raw material prices and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operation marked by Total operating income (TOI) above Rs.150.00 crore with consequent improvement in PBILDT margin
- Sustaining comfortable capital structure of below unity

Negative factors

- De-growth in scale of operations by 30% with decline in profitability
- Increase in Gross Current Asset (days) more than 300 days
- Significant decline in profitability leading to interest coverage below 2x

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of APIL is "Stable" considering long experience of promoters in the fertilizer industry coupled with established relationship with customer and sustaining comfortable capital structure.

Detailed description of the key rating drivers:

Key strengths

Growing scale of operations albeit continued to remain moderate

APIL's scale of operations has increased at a Compound Annual Growth Rate (CAGR) of 12.72% over the past five years ended FY23. During FY23, APIL's TOI grew by 12.65% on y-o-y basis to Rs.131.02 crore from Rs.116.30 crore in FY22 mainly owing to increase in sales volume by 8% and sales realisation by 5% on y-o-y basis. During H1FY24 (Prov.), APIL registered TOI of Rs.84.13 crore (H1FY23: Rs.70.88 crore) and revenue is expected to remain in same line in H2FY24 on the back of stable demand outlook.

Comfortable capital structure and debt coverage indicators

APIL's capital structure continued to remain comfortable with a below unity overall gearing at 0.79x as on March 31, 2023 (0.52x as on March 31, 2022). However, APIL's debt coverage indicators moderated but continued to remain comfortable marked by interest coverage ratio of 4.94x in FY23 as against 5.40x in FY22 and Total Debt to Gross Cash Accruals (TDGCA) of 6.47 years as on March 31, 2023, as against 3.80 years as on March 31, 2022. The moderation in debt coverage indicators was mainly owing to increase in total debt on the back of elevated input prices and delay in receipt of subsidy in Q4FY23. Further, capital structure and debt coverage indicators continue to remain comfortable during H1FY24 as well marked by overall gearing and interest coverage of 0.76x and 4.57x respectively.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Experienced management with established presence in fertilizers industry

Mr. Raj Kumar Gupta, Managing Director, holds experience of more than two decades in the fertilizer industry. He looks after overall business of the company. Mr. Vishnu Kant Gupta, director, has around one decade of experience in the fertilizers industry and looks after production of the company. The directors are supported by tier II staff.

Established marketing & distribution network

Over the years, APIL has established its distribution network consisting of over 200 dealers/distributors spread across various states viz. Maharashtra, Madhya Pradesh, Rajasthan, Uttar Pradesh, Chhattisgarh and Andhra Pradesh.

Key weaknesses

Moderate profitability

APIL's profitability position remained stable on y-o-y basis and continue to remain moderate marked by PBILDT margin at 8.02% in FY23 as compared to 7.75% in FY22. However, PAT margin declined to 3.82% in FY23 from 5.01% in FY22 mainly owing to increase in finance cost on the back of increase in total debt. Further, APIL has reported PBILDT margin of 8.09% during H1FY24, however, it is expected to moderate to some extent in H2FY24 owing to proportionately higher reduction in subsidy allocation in comparison to reduction in prices of raw material and natural gas.

Concentrated product portfolio

The product portfolio of APIL consist of organic fertilizers & chemical fertilizers like single super phosphate (SSP), nitrogen phosphorus potassium (NPK), organic manure, calcium sulphate, zinc sulphate, potash derived from molasses (PDM), phosphate rich organic manure (PROM) etc. The product portfolio of APIL remained concentrated with ~89% sales derived from SSP.

Presence in regulated industry with agro-climatic risks

The profitability of fertiliser manufacturers is influenced by the regulations governing various types of fertilisers, wherein, the government controls the fertiliser prices and provides subsidies. The quantum of subsidy receivables and delays associated with the receipt of the same inherently impacts the liquidity of the fertiliser industry, albeit differs with the type of fertilizer. With sharp increase in raw material prices witnessed in FY22 and FY23, government increased the subsidy budget allocation and has been regularly releasing the subsidy payments thereon. The total fertilizer subsidy budget for FY23 remained all-time high at Rs.2.15 lakh crore. Subsequently, with moderation in raw material prices during current year, government has decreased subsidy budget allocation in FY24 to Rs.1.75 lakh crore. The war in West Asia may keep natural gas prices elevated, driving fertilizer prices higher, and an expected increase in rabi acreage may lead to higher consumption of fertilizers. The shortfall in the subsidy budget amid the volatile raw material prices may lead companies to resort to higher short-term borrowings to fund extended subsidy receivables. Regular intervention by the government to increase the subsidy budget, NPK nutrient rates, and minimum selling prices (MSP) help the sector to work in a regulated manner.

Exposure to volatility in raw material prices and foreign exchange rates

Major raw materials required for manufacturing of SSP, is rock phosphate and sulfuric acid. The procurement of rock phosphate is fulfilled by imports from Egypt, Iran, Jordan, Morocco, Syria, Togo, Tunisia, etc. while requirement of sulfuric acid is met by local vendors. The prices of rock phosphate are volatile due to its linkage with international markets along with India being an importer as it is not naturally mined in the country. However, APIL is able to pass on some portion of price variation to customers with some time lag. Further, APIL does not have any sizeable exports to provide natural hedge for its import payables, which exposes its profitability to adverse movement in foreign exchange rates. APIL registered forex loss of Rs.0.53 crore in FY23 (FY22: Rs. (0.22) crore).

Liquidity: Adequate

The liquidity profile of APIL remained adequate marked by moderate gross cash accruals as against negligible debt repayment obligations, moderate liquidity ratios and improved working capital cycle. GCA level remained healthy at Rs.6.31 crore in FY23 as against low debt repayment of Rs.1.29 crore in FY24. The operating cycle of APIL is also improving for the past three years and stood at 99 days in FY23 as against 106 days in FY22 and 211 days in FY21 on the back of increase in receivable collection efficiency and increase in trade payables near year end on the back of higher purchase near year end. Further, liquidity ratio remained moderate marked by current ratio of 1.38x as on March 31, 2023 (PY: 1.73x). However, free cash and bank balance remained low at Rs.0.14 crore as on March 31, 2023. The average funds based working capital utilization for the past 12 months ended October 31, 2023, remained high at ~93% mainly owing to delay in receipt of subsidy during Q4FY23 and H1FY24 coupled with elevated input and fuel prices leading to high working capital borrowing requirement. Average non- funds based working capital utilization for the past 12 months ended October 31, 2023, remained moderate at ~71%. Further, the cashflow from operations remained negative at Rs. 8.24 crore in FY23 mainly owing to increase in raw material prices and GST receivables owing

to higher purchase near year end and increase in subsidy receivables mainly owing to higher per unit subsidy rates and some delay in receipt of subsidy.

Applicable criteria

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Fertilizer](#)
[Manufacturing Companies](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

| Macro-Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|-----------|-----------------------------|----------------|
| Commodities | Chemicals | Fertilizers & Agrochemicals | Fertilizers |

Indore based, Agro Phos (India) Limited (APIL: L24123MP2002PLC015285) was initially incorporated in 2001 as a partnership firm 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. Currently, APIL is listed on NSE.

APIL is an ISO 9001:2008 certified company engaged in the manufacturing of fertilizers such as Single Super Phosphate (SSP), Nitrogen Phosphate and Potassium (NPK), Zinc Sulphate, Organic manure and Calcium Sulphate commonly known as soil conditioner or gypsum. APIL also undertakes trading of Diammonium Phosphate (DAP), Urea, Ammonium Sulphate and other fertilizers depending upon the demand of the customer. The manufacturing facilities of APIL are located at Dewas and Meghnagar in Madhya Pradesh.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | H1FY24 (Prov.) |
|----------------------------|--------------------|--------------------|----------------|
| Total operating income | 116.30 | 131.02 | 84.13 |
| PBILDT | 9.02 | 10.50 | 6.81 |
| PAT | 5.83 | 5.00 | 3.24 |
| Overall gearing (times) | 0.52 | 0.79 | 0.76 |
| Interest coverage (times) | 5.40 | 4.94 | 4.57 |

A: Audited Prov. Provisional; Note: 'the above results are latest financial results available'

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 reviewed the ratings assigned to the bank facilities of APIL under 'Non-Cooperation' category vide press release dated July 12, 2023.

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--------------------------------------|------|------------------|-----------------|---------------|-----------------------------|---|
| Fund-based - LT-Cash Credit | - | - | - | - | 10.00 | CARE BBB-; Stable |
| Non-fund-based - ST-Letter of credit | - | - | - | - | 6.00 | CARE A3 |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|-------------------|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Fund-based - LT-Cash Credit | LT | 10.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (20-Oct-22) | 1)CARE BB+; Stable (17-Aug-21) | 1)CARE BB+; Stable (29-Sep-20) |
| 2 | Non-fund-based - ST-Letter of credit | ST | 6.00 | CARE A3 | - | 1)CARE A3 (20-Oct-22) | 1)CARE A4+ (17-Aug-21) | 1)CARE A4+ (29-Sep-20) |

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|--------------------------------------|------------------|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Non-fund-based - ST-Letter of credit | Simple |

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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