Coastal Chemical Company Private Limited

July 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	150.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Rahimtula Group, comprising Compagnie Indo-Francaise De Commerce Private Limited (CIFC) and Coastal Chemical Company Private Limited (CCCPL), derive strength from the experience of promoters with a long track record of operations in the fertilizer trading business and established relationships with customers and suppliers. The ratings also factor in adequate risk mitigation policies to tackle price volatility and foreign exchange rate fluctuations. However, the ratings are constrained by low profitability margins due to the trading nature of the business, a moderate financial risk profile, and exposure to the highly regulated fertilizer industry, agro-climatic risks, and global geopolitical scenarios.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations with PBILDT (Profit before interest, lease rentals, depreciation and taxes) margin above 3% and ROCE (Return on capital employed) above 14% on a sustained basis.
- Improvement in financial risk profile marked by PBILDT interest coverage above 3x on a sustained basis.

Negative factors

- Deterioration in capital structure leading to TOL/TNW (Total outstanding liability/ tangible net worth) above 3.50x on sustained basis.
- Decline in scale of operations as marked by TOI (total operating income) below Rs 1000 crore and PBILDT margin below 1.50% on a sustained basis.
- Deterioration in terms with any of its key suppliers or customers, leading to a significant impact on the company's operations.

Analytical approach: Combined

CARE Ratings has taken a combined approach while arriving at the ratings of CIFC and CCCPL, as the companies operate in a similar line of business and are closely held entities with significant ownership and control by the Rahimtula Group.

Outlook: Stable

The "Stable" outlook is attributed to the group's long-standing relationship with its suppliers and its dominant market position in ammonia trading, which provides ample revenue visibility in the near term.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and long track record of operations in fertilizer business

The group has a long track record of around five decades in the fertilizer industry, leading to an established position in this segment. The company was promoted by the late Mr. Amir Ali Rahimtula, who was also the founder chairman of the Fertilizer Association of India (FAI). He was the first Indian chairman of the Marketing Association of European Nitrogen and Complex Producers, known as NITREX and COMPLEX. The company is currently managed by Mr. H.N. Rahimtula, son of Mr. Amir Ali Rahimtula, who has extensive experience of around five decades in the fertilizer trading industry.

Adequate risk mitigation policy

The group is engaged in the trading (high seas sale) of ammonia and is exposed to risks associated with price fluctuations of the traded product and foreign exchange fluctuations. To mitigate price fluctuation risk, the company enters into back-to-back buy and sell orders. The pricing formula is fixed at the time of the order, with both the buyer and the supplier agreeing to the price, thus transferring the price fluctuation risk to the buyer and insulating the group from any adverse price movements. The company

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

procures its products in US dollar (USD) and bills to its buyers also in USD, however, the company receives the payment in Indian rupees thus exposing it to foreign exchange fluctuation risk. The company hedges all of its exposure by buying forward contracts as per the RBI reference rate similar to the one that buyer uses for conversion of USD invoice to INR.

Concentrated yet well-established suppliers and customers
The company has a longstanding relationship with its customers and suppliers, albeit with high concentration. Approximately 98% of its revenue during FY24 (refer to the period from April 01 to March 31) came from its top 5 customers (PY: 96%). The company primarily serves government undertakings and other leaders in the agro-industry in India, entering into medium-term contracts ranging from 1 to 1.5 years with its customers. The supply price is determined by the USD invoice amount converted to equivalent INR as per the RBI reference rate on the payment due date.
Sunshine Fertilizers and P.T. Kaltim Parna Industries are the primary suppliers, accounting for about 80% of total purchases in FY24, with the top 5 suppliers covering 100% of purchases. Despite this concentration, the risk is mitigated as these suppliers are renowned for manufacturing high-quality ammonia and are major suppliers in various global markets.

Key weaknesses

Low profit margins
The total operating income decreased by approximately 70% during FY24 to Rs. 1137.65 crore (PY: Rs. 3886.39 crore) due to erratic weather conditions and a decline in ammonia prices as global demand normalized. Additionally, the company's profitability margins remain low due to the trading nature of the business. The PBILDT margin declined to 0.94% in FY24 (PY: 2.38%) primarily due to higher freight costs, although these costs are recoverable from customers with a lag. The PAT (Profit After Tax) margin stood low at 0.78% in FY24, mainly due to high interest costs of Rs. 25.12 crore, which includes Rs. 14 crore of prepaid interest.

Moderate financial risk profile
The overall gearing of the group improved to 0.12x during FY24 (PY: 8.44x), mainly due to a reduction in total debt as the group had no liability for bill discounting as of March 31, 2024. Additionally, the working capital limits remained unutilized as of March 31, 2024. Looking ahead, with the improvement in the scale of operations, the debt profile is anticipated to moderate with high bill discounting facilities availed from the bank to make payments to the suppliers that allow a credit period of 30 days. However, these facilities will be backed by secured Letters of Credit (LC) from the customer’s bank, thus providing comfort to the financial risk profile. However, the debt coverage metrics subdued during the year as marked by interest coverage ratio of 0.96x (PY: 1.90x) mainly due to high interest expense.

Industry and Geopolitical Exposure Risks
The group operates in the highly regulated fertilizer industry, which exposes it to stringent government policies and regulations that can impact its operations. As a major importer of fertilizer raw materials, the group is also vulnerable to agro-climatic risks, such as erratic weather patterns and unpredictable climatic conditions, which can affect the supply and demand dynamics of fertilizers. Furthermore, global geopolitical scenarios, such as the Ukraine-Russia war, the Red Sea crisis, and the Israel-Palestine conflict, can significantly influence the availability and pricing of raw materials like ammonia and urea. These factors collectively pose challenges to the group’s operations and financial stability.

Liquidity: Adequate

The liquidity profile of the group is adequate as marked by nil utilisation of working capital limits during the year along with unencumbered cash and cash equivalent balance of Rs 52.51 crore as of March 31, 2024. The company has no long-term debt repayment obligations in the near term and the repayment of unsecured loans from promoters of Rs 13.98 crore is also contingent upon the group generating excess cash accruals. The current ratio of the company stood high at 4.01 times as on March 31, 2024 (PY: 1.09 times). The group has no immediate capex plans as of date.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Fertilizer
Financial Ratios – Non financial Sector
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Coastal Chemical Company Private Limited (CCCPL) was incorporated in October 1967 by Rahimtula Group. The company initially provided liaison and follow-up services related to fertilizers and fertilizer raw materials such as rock phosphate. However, since 2022, with the growth in CIFC's operations, the management decided to separate the Urea and Ammonia business by shifting Ammonia trading to CCCPL. Currently, the majority of the group's ammonia trading is conducted through CCCPL, while Urea, Sulphur, Rock Phosphates, and some ammonias are traded through CIFC.

Standalone financials:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	3,313.62	819.54
PBILDT	79.40	7.41
PAT	27.89	5.58
Overall gearing (times)	17.79	0.34
Interest coverage (times)	1.88	0.37

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Combined financials of CCCPL and CIFC:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	3886.39	1137.65
PBILDT	92.55	10.73
PAT	36.38	8.89
Overall gearing (times)	8.44	0.12
Interest coverage (times)	1.90	0.96

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
CRISIL has placed the rating assigned to the bank facilities of Coastal Chemical Company Private Limited into Issuer Not Cooperating category vide their press release dated May 14, 2024, on account of their inability to carry out a review in the absence of requisite information.

Any other information: Standalone

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits		-	-	-	150.00	CARE BBB-; Stable / 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 2024-2025	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
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST	150.00	CARE BBB-; Stable / CARE A3				

LT/ST: 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/ ST-Working Capital Limits	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.

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