

## Madhya Bharat Agro Products Limited

March 24, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable (Triple B; Outlook: Stable) and Withdrawn
<b>Total Bank Facilities</b>	<b>0.00</b> (Rs. Only)		

*Details of instruments/facilities in Annexure-1*

### **Detailed Rationale and Key Rating Drivers**

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB; Stable [Triple B; Outlook; Stable] assigned to the bank facilities of Madhya Bharat Agro Products Limited (MBAPL). The above action has been taken at the request of MBAPL and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

The rating assigned to the bank facilities of Madhya Baharat Agro Products Limited (MBAPL) continue to derive comfort from the wide experience of the management in the fertilizer industry with strong group presence, established marketing network, its integrated plant for manufacturing of fertilizer and chemical products and benefit of arrangement for long-term supply of rock phosphate. The rating, further, continues to derive strength from its growing scale of operations, healthy profitability margins, comfortable solvency position and adequate liquidity position.

The rating, however, continues to remain constrained on account of vulnerability of profitability margins to fluctuations in the raw material prices and challenges of operating in a highly regulated fertilizer and chemical industry. The ratings further constrained on account of project implementation risk associated with its large size debt funded expansion project.

### **Detailed description of the key rating drivers**

#### **Key Rating Strengths**

#### ***Experienced management with strong group support and strong financial risk profile of the group***

Ostwal group is promoted by Mr. Mahendra Kumar Ostwal, Chairman and Managing Director of the Ostwal Group, who has more than two decades of experience in the fertilizer industry and is assisted by his sons, Mr. Pankaj Ostwal and Mr. Praveen Ostwal. Further, the directors are assisted by a team of professionals looking after various business functions. The group concern includes Krishana Phoschem Limited (KPL, rated CARE BBB; Positive) and Ostwal Phoschem (India) Limited (OPL, rated CARE BBB; Stable). The group companies are benefited in terms of experienced management with strong financial support and their established relationship with dealers and distributors. OPL has 45.17% stake in KPL and 37.71% stake in MBAPL as on March 31, 2019.

#### ***Marketing arrangement of its products***

Till March 31, 2018, the Ostwal group was marketing its fertilizers through Shriram Fertilizers (SFS) a unit of DCM Shriram Limited. However, due to change in policy of subsidy claim where manufacturer will get subsidy instead of marketing company as well as discontinue of use of brand name of marketing company, it discontinued its agreement with SFS. From April 01, 2018, the group is marketing its fertilizer products under the own brand name of "ANNADATA" in the states of Madhya Pradesh, Gujarat, Maharashtra, Rajasthan, Punjab, Haryana, Udisha, Himachal Pradesh, Utter Pradesh and Uttarakhand. The group has appointed a network of 1000 distributors (which include SFS also) who in turn supply to more than 9000 dealers. Further, it sales fertilizer to government owned co-operative societies as well. Furthermore, the company is marketing chemicals and mainly selling to various traders as well as manufacturing companies.

#### ***Arrangement for long-term supply of rock phosphate***

Rock phosphate is a scarce material in India with its reserves concentrated in Rajasthan, Madhya Pradesh and Uttar Pradesh. MBAPL has signed an Memorandum of Understanding (MoU) with Madhya Pradesh State Mining Corporation Limited MPSMCL for supply of 93000 MTPA mined low grade rock phosphate ore from its Tigora and Mardeora mines, located near its plant, for a period of 20 years from April 30, 2009. Owing to assured supply of raw material, MBAPL gets the benefit in terms of availability of raw material for its BRP plant at lower transportation cost translating into better operating margins for the company.

#### ***Growing scale of operations with healthy profitability margin***

Total Operating Income (TOI) of the company grew at a CAGR of 17.09% since last four financials year ended FY20. It has registered the TOI of Rs.131.09 crore in FY20 as against Rs.116.33 crore in FY19. The profitability of the company stood healthy with PBILDT and PAT margin of 26.66% and 11.32% respectively in FY20 as against 25.59% and 10.42% respectively in FY19. Further in 9MFY21 it has registered the TOI of Rs136.21 crore with PBILDT and PAT margin 25.68% and 13.03% respectively.

**Comfortable solvency position**

The capital structure of the company stood comfortable with an overall gearing of 0.31 times as on March 31, 2020. Further, the debt service coverage indicators of the company stood comfortable with total debt to GCA of 1.42 times as on March 31, 2020 and Interest coverage stood comfortable at 11.40 times during FY20.

**Key Rating Weaknesses****Vulnerability of profitability margins to fluctuation in the prices of rock phosphate**

Rock phosphate is a scarce material in India with its reserves concentrated in Rajasthan, Madhya Pradesh and Uttar Pradesh. MBAPL has arrangement with MPSMCL for supply of 93000 MTPA mined low grade rock phosphate ore from its Tigora and Mardeora mines. Some part of raw material taken from its own mines and some part of raw material purchase from domestic players. The company is exposed to raw material price fluctuation risk to an extent its purchase raw material from other suppliers. The profitability of the company is vulnerable to any adverse movement in raw material prices as the company will not be immediately able to pass on the increased price to its customers due its elongated raw material inventory holding period. Therefore, any adverse movement in prices of raw material affects the profitability margin of the company.

**Project implementation risk**

During FY19, the company undertook a new project for manufacturing of Triple Super Phosphate (TSP) with backward integration of BRP, SA and SSP. It has envisaged total cost of the project of Rs.92.62 crore (including margin money of Rs.11.10 crore) to be funded through internal accruals of Rs.32.62 crore and term loan of Rs.60.00 crore. Till January 2021, it has incurred total cost of Rs.78.72 crore towards the project. The company has planned to complete the project by end of March 31, 2021. It has already achieved financial closure. The repayment of the said term loan would commence from March 2021.

**Highly regulated fertilizer and chemical industry**

Fertilizer industry is characterized by government control on prices and frequent changes in policies. Till December 2017, the subsidy on SSP was being claimed and reimbursed by the Government to marketer. But, with effect from January 01, 2018 the subsidy to be claimed by the manufacturers itself. DBT in fertilizer is meant to transfer subsidies to manufacturers upon authentication of purchase by farmers which can help restricting diversion, prevent leakages, and bring about greater transparency, accountability and efficiency in the system. For FY20, the government has revised the nutrient based subsidy rate only for sulphur by increasing it by 31.9% while keeping the rates for nitrogen, phosphorus and potassium unchanged.

**Liquidity: Adequate**

The liquidity position of the company stood adequate marked by healthy cash accruals available for debt repayment obligations. Average utilization of fund based working capital limits stood around 50-60% during past 12 months ended February 2021. The liquidity ratio of the company stood comfortable with current ratio at 2.62 times and quick ratio at 1.42 times as on March 31, 2020. However, operating cycle stood elongated at 167 days in FY20 as against 127 days in FY19. The company maintains higher inventory to meet regular orders of distributors due to seasonality associated with its products. The average inventory period stood around 3 to 4 months. Further, the company gives credit period of 15-30 days to its distributor and gets payment from cooperating societies in 2 to 3 months and subsidy from govt. department within one month. It has cash and bank balance of Rs.0.95 crore as on March 31, 2020 but its cash credit limit utilization also remains moderate. It has not availed the moratorium and enhancement during lockdown on account of Covid-19.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Fertilizer Companies](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

**About the Company**

MBAPL was incorporated as a private limited company by Mr. Shailendra Jain along with his relatives in 1997 to set up a Single Super Phosphate (SSP) manufacturing plant in Sagar district, Madhya Pradesh. In September 2004, MBAPL was taken over by Bhilwara based Ostwal Group pending approval from Board of Industrial and Financial Reconstruction (BIFR) and operations of

MBAPL were turned around since January 2005. Further, in September 2016, it came out with an Initial Public Offering (IPO) and has listed its shares in NSE SME Platform, further in August 2019 it has shifted into NSE main platform.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	116.33	131.09
PBILDT	29.77	34.95
PAT	12.12	14.84
Overall gearing (times)	0.29	0.31
Interest coverage (times)	8.29	11.40

A: Audited

In 9MFY21, the company has registered TOI of Rs.136.21 crore with PBILDT and PAT margin of 25.68% and 13.03% respectively.

**Status of non-cooperation with previous CRA:** None

**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 for this company:** Annexure 4

#### 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	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

#### 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-Term Loan	LT	-	-	-	1)Withdrawn (04-Apr-19)	1)CARE BBB; Stable (03-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BBB; Stable (02-Apr-20)	1)CARE BBB; Stable (04-Apr-19)	1)CARE BBB; Stable (03-Apr-18)	-
3.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB; Stable	1)CARE BBB; Stable (04-Apr-19)	1)CARE BBB; Stable	-

					(02-Apr-20)		(03-Apr-18)	
--	--	--	--	--	-------------	--	-------------	--

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - None**
**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-Term Loan	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra  
 Contact no. – +91-22-6754 3573  
 Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name – Mr Abhishek Kumar Jain  
 Group Head Contact no.- 0141-4020213/14  
 Group Head Email ID – [abhishek.jain@careratings.com](mailto:abhishek.jain@careratings.com)

### Relationship Contact

Name: Mr Nikhil Soni  
 Contact no. : +91-141-402 0213 / 14  
 Email ID: [Nikhil.soni@careratings.com](mailto:Nikhil.soni@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.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.