Krishana Phoschem Limited

March 24, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	-	-	Revised from CARE BBB; Positive / CARE A3+ (Triple B; Outlook: Positive / A Three Plus) to CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus) and Withdrawn
Long Term Bank Facilities	-	-	Revised from CARE BBB; Positive (Triple B; Outlook: Positive) to CARE BBB; Stable (Triple B; Outlook: Stable) and Withdrawn
Total Bank Facilities	**0.00 (Rs. Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed and revised the outlook from 'Positive' to 'Stable' and withdrawn the outstanding ratings of 'CARE BBB; Stable/CARE A3+ [Triple B; Outlook; Stable / A Three Plus] assigned to the bank facilities of Krishana Phoschem Limited (KPL). The above action has been taken at the request of KPL and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

The revision in the outlook takes into elongation in its operating cycle. The ratings of Krishana Phoschem Limited (BDPL) continue derive comfort from the wide experience of the management in the fertilizer industry with strong group presence, established marketing network and its integrated plant for manufacturing of fertilizer and chemical products. The ratings, further, continue to derive strength from diversified revenue stream with continuous increase in scale of operations, healthy profitability margins, comfortable solvency position and adequate liquidity position.

The ratings, however, continue to remain constrained on account of vulnerability of profitability margins to fluctuations in the raw material prices and foreign exchange rate, raw material availability risk associated with its BRP unit and challenges of operating in a highly regulated fertilizer and chemical industry.

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 Madhya Bharat Agro Products Limited (MBAPL, rated CARE BBB; Stable) and Ostwal Phoschem (India) Limited (OPL, rated CARE BBB; Stable). The group companies are benefited in terms of experienced management with financial support and their established position in the fertilizer business. 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.

Diversified revenue stream with continuous increase in scale of operations

Continue to be so as Total Operating Income (TOI) of the company has grew at a CAGR of 26.31% during last four financials year ended FY20. It has registered the TOI of Rs.163.02 crore during FY20 as against Rs.153.01 crore in FY19. Further, as per 9MFY21 provisional result it has registered TOI of Rs.136.99 crore.

Healthy profitability margins
The profitability of the company remained healthy with PBILDT and PAT margin of 21.65% and 8.45% respectively in FY20 as against 22.08% and 8.83% respectively in FY19.

Comfortable solvency position
The capital structure of the company stood comfortable with an overall gearing of 0.10 times as on March 31, 2020. Further, the debt service coverage indicators of the company stood comfortable with total debt to GCA of 0.43 times as on March 31, 2020 and Interest coverage of 12.54 times.

Key Rating Weaknesses
Higher volatility in the prices of rock phosphate and higher import dependency due to low indigenous reserves and Foreign exchange fluctuation risk
Rock Phosphate being one of the important raw material for manufacturing phosphatic fertilizers including 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 majorly imports rock phosphates from countries like Egypt, Bangladesh, Morocco, US and Middle East. During FY19, it directly imported rock phosphate 25800 MT through high sea sales agreement. However, during FY20, the company has purchased low grade rock phosphate and converted into Beneficiated rock phosphate in its own plant which will reduce the cost of raw material. Furthermore, the profitability is exposed to fluctuation in foreign exchange rate as it does not have any active hedging policy.

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. Further, it has generated cash flow from operating activities of Rs.30.31 crore in FY20 as against cash flow from operating activities of Rs.19.00 crore in FY19 owing to lower working capital changes. It has average utilization of working capital bank borrowings remained at 50-60% during last 12 months ending February 2021. The operating cycle of the company stood at 112 days in FY20, increased from 95 days in FY19 owing to higher inventory holding period. The company procures primary raw material through domestic market as well as import from Egypt and maintains higher inventory to meet regular orders of distributors as it is seasonal in nature. The average inventory period stood around 90-150 days. Further, the company gives credit period of 15-30 days to its distributor and gets payment from co-operating societies in 2 to 3 months. It gets subsidy within one month. The current ratio of the company stood moderate at 2.82 times and quick ratio stood at 1.33 times as on March 31, 2019. It has availed the moratorium from March to May 2020, however it has not availed any 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
Criteria for Short Term Instruments
Rating Methodology - Fertilizer Companies
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
KPL was incorporated in 2004 by Mr. Roop Lal Patel, Mr. Dilip Kumar Gadia and Mrs. Geeta Paliwal. Subsequently, in 2007, the 'Ostwal Group', has acquired the company. KPL is engaged in the manufacturing of fertilizer and chemical. KPL has an installed capacity to manufacture 2 Lakh Metric Tonnes Per Annum (LMPA) of BRP, 1.20 LMPA of SSP, 0.90 LMPA of GSSP, 0.99 LMPA of Sulphuric Acid and 1324 MTPA for Chemical products (Dyes Intermediate) as on March 31, 2019.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	153.01	163.02
PBILDT	33.79	35.29
PAT	13.51	13.77
Overall gearing (times)	0.29	0.10
Interest coverage (times)	9.83	12.54

A: Audited

In 9MFY21, the company has registered TOI of Rs.136.99 crore with PBILDT and PAT margin of 23.26% and 10.79% 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/ ST-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/ ST-Cash Credit	LT/ST	-	-	1)CARE BBB; Positive / CARE A3+ (02-Apr-20)	1)CARE BBB; Positive / CARE A3+ (03-Apr-19)	1)CARE BBB; Stable / CARE A3 (03-Apr-18)	-
2.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB; Positive (02-Apr-20)	1)CARE BBB; Positive (03-Apr-19)	1)CARE BBB; Stable (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-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	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 for any clarifications.*

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