

Amruth Organic Fertilizers

December 27, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	18.77 (Enhanced from 12.77)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.00	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	20.77 (Rs. Twenty Crore and Seventy-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Amruth Organic Fertilizers (AOF) continues to factor in its small scale of operations, modest capital structure and debt coverage indicators, elongated operating cycle, tender based nature of operations in highly fragmented and competitive nature of industry, Customer concentration risk and Constitution of the entity as a partnership firm. The rating also factors the prospects of the organic fertilizer industry highly dependent on monsoon and the growth of agriculture and execution risk associated with upcoming project. These rating weaknesses are partially offset by experience of partners for more than a decade in fertilizer industry and satisfactory but fluctuating profitability margins.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations marked by total operating income above Rs. 30 crores
- The firm maintains PBILDT margins and PAT margins not less than 14.00% and 5.00% on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Increase in total debt/GCA beyond 8.00x times

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with increasing total operating income during the review period

The firm has a track record of a decade, however, the total operating income remained small at Rs. 26.09 Crore in FY21 (Prov.). The total operating income of the firm has been improved by 7.20% when compared to FY20. The improvement in the scale of operations is due to increase in demand for fertilizers and addition of new customer supported by increased production and demand. The firm has achieved a turnover of Rs.20 Cr in 7MFY22 and scale of operations are likely to remain in the similar range what has been in past.

Moderate capital structure and debt coverage indicators

The capital structure of firm continues to remain leveraged. However, the overall gearing has improved from 5.24x as on March 31, 2020 to 3.85x as on March 31, 2021(Prov.) on back of accretion of profits to reserves. Total debt/GCA also remains high at 7.11x in FY21 (Prov.). Nevertheless, ICR improved to 2.48x in FY21 (Prov.) from 2.19x in FY20 due to improvement in profitability.

Elongated operating cycle

The operating cycle of the firm continue to remain elongated at 163 days in FY21 (Prov.) when compared to 144 days in FY20(A) due to high inventory holding period as the firm stocks up the raw materials to meet the orders without any interruption in the manufacturing process. The firm procures raw material like animal manure, dried leaves and barn, microbes from local suppliers in the state of Karnataka. Further, the client base of the firm includes Government of Karnataka (GoK) and other private companies, traders and farmers. The firm gives credit period of 90 days to its customers and avails credit period of 30-60 days from its suppliers.

Tender based nature of operations in highly fragmented and competitive nature of industry

Presently the firm receives 40-50% work orders from GoK. All these are tender-based and revenues are dependent on the firm's ability to bid successfully for these tenders. As the firm is engaged in the business of manufacturing of organic fertilizers, which is highly fragmented and competitive in nature as evident by the presence of numerous unorganized and few organized players across India. Hence, the players in the industry do not have any pricing power and are exposed to competition induced pressures on profitability.

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

Customer concentration risk

AOF has reduced the concentration of GoK to the extent of 40% in FY21 when compared of more than 70% of its revenue in FY20. The excess demand is catered by the other private players from the industry but still GoK caters nearly 40% of revenue which exposes it to customer concentration risk.

Prospects of the organic fertilizer industry highly dependent on monsoon and the growth of agriculture

Though the monsoon dependent agriculture sector is expected to remain stable, but the prospects of fertilizer industry is dependent on the growth of agriculture sector in India and its yield, is susceptible to agro climatic risks including pest & diseases. Climatic conditions, more specifically, the monsoons influence various operational parameters for a fertilizer entity in relation to the overall demand and the pricing of the product.

Constitution of the entity as a partnership firm

AOF's constitution as a partnership concern with low net worth base restricts its overall financial flexibility in terms of limited access to external funds for any future expansion plans. At the same time, there is inherent risk of withdrawal of capital and dissolution of the firm in case of death/insolvency of partner. Further, partners have withdrawn capital of Rs.0.10 Cr in FY20(A) and infused a capital of Rs.0.20 crore in FY21(Prov.)

Project Risk

The firm is planning to setup an additional unit at the existing location of the plant to cater the demand in relation to the demand in relation to the agricultural oil business. The firm is expecting to incur a cost of Rs.5.70 cr. The debt equity ratio of the project is likely to be 3.75x and the firm has not achieved the financial closure for the project yet. The firm is expected to start and complete the project within two months of financial closure.

Key Rating Strengths

Experience of partners for more than a decade in fertilizer industry

AOF was established in 2011, promoted by Mr. K. Nagaraj and Mrs. K. Padmavathi. Mr. K. Nagaraj, the managing partner of the firm has experience of more than a decade in fertilizer industry. Through their vast experience in the fertilizer business, the firm is able to establish healthy relationship with key suppliers, customers, local traders and dealers facilitating the fertilizers business within the state.

Satisfactory but fluctuating profitability margins

PBIDT margins of the firm although fluctuating, it remained satisfactory at 14.98% in FY21 when compared 10.94% in FY20. The improvement in profitability margins is due the increase in scale of operations and absorption of fixed costs. The margins have also improved due to addition new customers helping the company to command higher profitability than its existing customers.

Liquidity: Stretched

Liquidity of firm is stretched marked by high operating cycle and near full working capital utilization. Small scale of operations and partnership nature of entity also restricts its financial flexibility.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Fertilizer](#)

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About the Company

Amruth Organic Fertilizers (AOF) is a certified ISO 9001:2008 firm which was established in the year 2011. The firm is promoted by Mr K Nagaraj and his spouse Ms K Padmavati. AOF is engaged in manufacturing of fertilizers like bio fertilizers and organic fertilizers of around 125 different products under various quantities. The firm sells its product under the brand name "Amruth". The firm has its manufacturing facility at Malladihalli, Chitradurga district, Karnataka with installed capacity of 5000MT and 5000 Litres

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (Prov.)	31-10-2021(Prov.)
Total operating income	24.34	26.09	20.00
PBILDIT	2.66	3.91	NA
PAT	1.00	1.52	NA
Overall gearing (times)	3.85	2.86	NA
Interest coverage (times)	2.19	2.48	NA

A: Audited

Status of non-cooperation with previous CRA: Nil

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	August 2024	13.07	CARE B+; Stable
Fund-based - LT-Bank Overdraft	-	-	-	-	5.70	CARE B+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	2.00	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-Term Loan	LT	13.07	CARE B+; Stable	1)CARE B+; Stable (26-Nov-21)	1)CARE B+; Stable (26-Nov-20) 2)CARE C; Stable; ISSUER NOT COOPERATING* (21-Sep-20)	1)CARE B; Stable; ISSUER NOT COOPERATING* (09-Jul-19)	1)CARE B; Stable; ISSUER NOT COOPERATING* (04-Apr-18)
2	Fund-based - LT-Bank Overdraft	LT	5.70	CARE B+; Stable	1)CARE B+; Stable (26-Nov-21)	1)CARE B+; Stable (26-Nov-20) 2)CARE C; Stable; ISSUER NOT COOPERATING* (21-Sep-20)	1)CARE B; Stable; ISSUER NOT COOPERATING* (09-Jul-19)	1)CARE B; Stable; ISSUER NOT COOPERATING* (04-Apr-18)
3	Non-fund-based - ST-BG/LC	ST	2.00	CARE A4	1)CARE A4 (26-Nov-21)	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	Nil
B. Non financial covenants	Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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