CARE Ratings
Professional Risk Opinion

Advance Micro Fertilizers Private Limited

January 31, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	12.13 (Enhanced from Rs6.25 crore)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BB; Stable (Double B; Outlook: Stable)**
Total facilities	**12.13 (Rs. Twelve Crore and Thirteen Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of Advance Micro Fertilizers Private Limited (AMF) takes into account continuous increase in scale of operations with continuous improvement in PBILDT margin during past three years ended FY19 (FY refers to period from April 01 to March 31) and improvement in solvency position.

The rating, however, continues to remain constrained on account of customer concentration risks, its presence in the competitive and fragmented nature of the industry with vulnerability of profitability to agro climate condition and stringent pollution norms being engage into agrochemical industry.

These weaknesses, however, continues to offset to an extent from the experienced and resourceful management, wide product portfolio with established marketing network, strong clientele base and adequate liquidity position.

Rating Sensitivities

Positive Factor:

- Sustained increase in scale of operations of the company above Rs. 150 crore.
- Improvement of profitability margins with registration of PBILDT margin above 7.50%

Negative Factor:

- Any debt-funded project undertaken by the company which results in deterioration of capital structure beyond unity level.
- Any deterioration in the liquidity position owing to delay in the payment from its customer.

Detailed description of the key rating drivers

Key Rating Weaknesses

Customer concentration risk

The clientele base of the company is skewed as the company generates around 86% of its income from top three customers. This increases its dependency on orders received from these limited customers in the highly competitive agrochemicals industry. However, during first year of commercial operations of the sulphur, the company has established relationship with diversified customer base.

Competitive nature of the industry with vulnerability of income and profitability to agro climatic conditions

The pesticides & insecticides industry is marked by heavy fragmentation with absence of any major player having sizeable market share. The intense competition leads to competitive pricing and lower margins. The industry also faces regulatory risk due to prohibited usage of certain molecules. Furthermore, the sales and profitability of pesticide segment depends highly on the agro-climatic conditions prevalent in the domestic and the international markets as the demand for pesticides emanates from agricultural production which is highly dependent upon monsoon.

Stringent pollution norms for the major industry segments

AMF is exposed to inherent regulatory risk considering requirement of continuous adherence to stringent pollution control norms. The Central Pollution Control Board (CPCB) regulates the general standards for emission or discharge of environmental pollutants of carbon chemical industry. Presently, AMF is adhering to the pollution norms of CPCB and all its plants are zero-discharge facility.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Key Rating Strengths

Experienced and resourceful management

The overall affairs of the company are managed by Mr. Om Prakash Choudhary and Mr. Kedar Choudhary, Directors of the company who have vast experience of around a decade in the pesticides industry. Further, the promoters of the company are resourceful and continuously infused funds in the company for capacity expansion. The promoters infused total share capital of Rs.3.00 crore during FY15-18 (Rs.0.98 crore in FY15, Rs.0.79 crore in FY16, Rs.0.57 crore in FY17 Rs.0.66 crore in FY18).

Wide product profile coupled with established marketing network

AMF is manufacturing various categories of pesticides formulation (viz. fungicide, insecticide, herbicide) in the form of granule, liquid, dust, Suspensible Concentrates and Wettable Powder in various sizes as per the customer requirement. Further, AMF has set up a new unit in FY19 for various grades of Sulphur formulations up to 15000 MTPA. Further, with long track record of operations and support from competitive marketing staff, the company has established its presence in eleven states (majorly in North India). Further, it also exports agrochemical to neighbor countries.

Continuous growth in scale of operations coupled with well renowned customer base

The company has established relations with reputed clientele base which includes DCM Shriram Limited, Willowood Chemicals Private Limited etc. for pesticides and Crstal Crop Protection Limited, HPM Chemicals and Fertilizer Limited, Safex Chemicals India Limited etc. for sulphur.

Due to established presence with established customer base, Total Operating Income (TOI) of the company has shown continuous growth and grew at a Compounded Annual Growth Rate (CAGR) of 23.70% over the last three financial years ended FY19 owing to continuous growth in sales volume of pesticides and fertilizers. During FY19, TOI of the company has grown by 40.94% over FY18 (8.57% in FY18 over FY17) owing to higher sales volume and achieved TOI of Rs.102.43 crore in FY19.

Further, the company has achieved TOI of Rs.127.64 crore till January 09, 2019 which includes sales from agrochemicals of Rs.104.52 crore and sales from sulphur of Rs.23.12 crore.

Continuous improvement in profitability margins although stood moderate

PBILDT margin of the company has continuously increased during past three financial years ended FY19 and during FY19, PBILDT margin stood at 6.53% in FY19, increased by 203 bps over FY18 (154 bps in FY18 over FY17) on account of lower cost of material consumed. With improvement in PBILDT margin, PAT margin has also improved by 200 bps in FY19 over FY18 and stood at 3.55% in FY19. With improvement in scale of operation as well profitability margins, GCA level has significantly improved by 1.23 times over FY18 and it stood at Rs.4.72 crore in FY19.

Improvement in capital structure as well as debt coverage indicators in FY19 and stood comfortable

The capital structure of the company stood comfortable with an overall gearing of 0.69 times as on March 31, 2019, improved from 1.02 times as on March 31, 2018 mainly on account of scheduled repayment of term loan and profit accretion to reserves which was partially offset by infusion of unsecured loan for working capital requirement. Further, debt service coverage indicators also stood comfortable with Total debt to GCA of 1.60 times as on March 31, 2019, improved from 3.54 times as on March 31, 2018 owing to significantly increase in GCA level whereas total debt level remained stagnant as compared to previous year. Further, interest coverage also stood comfortable at 8.75 times in FY19 as against 4.29 times in FY18 on account of improvement in operating margin while interest expenses remained in line as compared to previous year.

Liquidity: Adequate

The liquidity profile of the company remained adequate marked by moderate operating cycle of 29 days in FY19. Being engaged into agrochemical industry which is dependent on the agro industry, the company has to allow credit period of 60-90 days to its customers. Further, due to numerous types of finished goods, inventory holding period stood high. However, the company also gets credit period of around 90 days from its suppliers due to which operating cycle remained moderate. Due to high creditors, current ratio and quick ratio stood moderate at 1.10 times and 0.60 times respectively as on March 31, 2019 as against 1.07 times and 0.53 times as on March 31, 2018. Further, the company utilizes around 94% its working capital limit in the last 9 months ended December 2019. The company has cash and bank balance of Rs.0.03 crore and expected GCA of Rs.7.80 crore for FY20 while it has debt obligation of Rs.0.80 crore for FY20 which reflects adequacy of liquidity.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology – Manufacturing Companies

Financial ratios – Non-Financial Sector

About the Company
Jaipur (Rajasthan) based AMF was incorporated in February 2002 by Choudhary family. AMF is engaged in the manufacturing of various kinds of pesticides formulation, fertilizer and plant stimulant since last 12 years. The company has two manufacturing units located at RIICO Industrial Area Bagru, Jaipur. The first unit is being used for manufacturing of various grades of pesticides formulation. The other unit was set up by the end of FY19 for manufacturing of various grades of sulphur formulations with installed capacity of 15,000 Metric Tonne Per Annum (MTPA) and started commercial operations from April 2019. AMF has presence in eleven states (majorly in Northern region). Further, it also exports agrochemical to neighbor countries mainly to Nepal.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	72.68	102.43
PBILDT	3.27	6.60
PAT	1.13	3.64
Overall gearing (times)	1.02	0.69
Interest coverage (times)	4.29	8.75

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years: Please refer Annexure-2

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-Term Loan	-	-	September 2024	3.13	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	9.00	CARE BB+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	3.13	CARE BB+; Stable	-	1)CARE BB; Stable (11-Feb-19)	-	-
2.	Fund-based - LT-Cash Credit	LT	9.00	CARE BB+; Stable	-	1)CARE BB; Stable (11-Feb-19)	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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