

## Agro Phos (India) Limited

April 13, 2017

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term Bank Facilities	15	<b>CARE BBB-; Stable (Triple B Minus ; Outlook: Stable)</b>	<b>Assigned</b>
Short-term Bank Facilities	6	<b>CARE A3 (A three)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>21 (Rupees twenty one crore only)</b>		

*Details of instruments/facilities in Anneuxre-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Agro Phos (India) Limited (APIL) derive strength from experience management with established track record of operations and established marketing network with reputed customer base. The ratings, further, derive strength from its financial risk profile marked by healthy operating profit margin, comfortable solvency position mainly on account of infusion of funds through Initial public offer (IPO) and moderate liquidity.

The ratings, however, constrained on account of risk regarding availability of raw material and foreign exchange rate fluctuation, dependency of revenue on climate condition and continuous reduction in subsidy for Single Super Phosphate (SSP) by the government.

The company's ability to increase its scale of operations by increasing the sales volume of SSP/GSSP while maintaining its profitability in the light of volatile prices of its raw materials, particularly rock phosphate, along with efficient working capital management would be key rating sensitivities. Furthermore, any changes made by the Govt. in its policy with respect to SSP industry in future would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strength

#### **Experienced management with established track record of operations and established marketing network with reputed customer base**

Mr Raj Kumar Gupta, Managing Director, has around two decades of work experience in the fertilizer industry. He looks after business development and management of overall business as well as financial operations of the company. Mr Vishnu Kant Gupta, whole director, has around one decade of experience in the industry and looks after production and finance function of the company.

AIPL has appointed 250 dealers, 18 marketing team and 12 warehouses for sale of its products. Further, the company has entered into marketing arrangement for their products SSP as well as GSSPL and NPK with Indian Potash Limited; IPL for supply of minimum 40000 MTPA of SSP as well as GSSP and 25000 MTPA of NPK. The company directly supplies its entire output of SSP as well as GSSP and NPK to IPL's dealer network. The product is sold by IPL under their brand name "IPL".

Furthermore, the company also sells its products directly under its own brand name of "Smridhi", "Swaraj" and "Ratna" through its dealer network mainly in Madhya Pradesh and Chhattisgarh.

#### **Infusion of funds through Initial public offer (IPO)**

In November 2016, the company came up with IPO for listing of its shares with issue size of Rs.12.94 crore viz. 5,880,000 equity shares at issue price of Rs.22 each (Face Value of Rs.10 each). The main objects of the issue are mainly repayment/prepayment of long-term borrowings availed by the company, working capital requirements of its new Meghnagar plant, general corporate purposes and issue expenses. In FY17 (refers to the period April 1 to March 31), the company has prepaid Rs.4.50 crore in advance against term loan availed by the company from MPFC out of proceeds from the issue.

Earlier, in September 2016, the company issued 11515292 bonus shares of Rs.10 each in the ratio of 4 equity shares for every equity shares held through capitalization of its profits.

#### **Financial profile marked by healthy profitability margins, comfortable solvency position and moderate liquidity position**

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Total Operating Income (TOI) of APIL has witnessed continuous growth and grew at a Compounded Annual Growth Rate (CAGR) of 10.69% during FY13-FY16 mainly on account of increase in sales volume of fertilizers as well as increase in subsidies received from government. Further, profitability margins of the company stood moderate in FY16.

APIL's capital structure stood comfortable with an overall gearing of 0.92 times as on March 31, 2016. Furthermore, the debt service coverage indicators also stood comfortable.

The operating cycle of the company stood comfortable in FY16 mainly on account of increase in creditors as on March 31, 2016. The cash flow from operating stood positive at Rs.1.85 crore in FY16. However, the average utilization of working capital bank borrowings remained high at 97.49% in last 12 months ending February 28, 2017.

#### **Key Rating Weakness**

##### **Risk regarding availability of raw material and foreign exchange rate fluctuation risk**

Rock phosphate is a scarce material in India with its reserves concentrated in Rajasthan, Madhya Pradesh and Uttar Pradesh. BRP or high grade rock phosphate is an essential raw material used in the manufacturing of phosphatic fertilizers including SSP, is not presently available in large quantity in India and that too portion of high grade rock is limited. Due to lower availability of rock phosphate in India, India imports rock phosphates from countries like Egypt, Bangladesh, Morocco, US, Middle East and China. However, APIL has long term agreement for procurement of low grade rock phosphate with Madhya Pradesh State Mining Corporation Limited (MPSMCL, a Govt. of Madhya Pradesh enterprise), Rajasthan State Mines and Minerals Limited (RSMML), a Govt. of Rajasthan. Further, the company procured high grade rock phosphate through importing the same mainly from Egypt, Iran, Jordan, Morocco, Syria, Togo, Tunisia etc as in india, high grade rock phosphate is not available or limited available. During FY16, it has imported raw material cost of Rs.13.40 crore.

Further, the profitability of the company is exposed to volatile foreign exchange rate as it partially hedge foreign exchange exposure.

##### **Dependency of revenue on climate condition**

The demand for fertilizers in general is influenced by the climatic conditions i.e. level of monsoons. In times of bad monsoons, off-take would be limited and stocks would pile up.

**Analytical Approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Fertilizer](#)

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

#### **About the Company**

Indore-based (Madhya Pradesh) Agro Phos (India) Limited (APIL) was initially formed in 2001 as a partnership concern in the name of Agro (Phos) India by Mr Raj Kumar Gupta and Mr Virendra Kumar Gupta. Further In 2002, partnership firm is converted into private limited company and thereafter the company changed its constitution from private limited to closely-held public limited in March 2004. Further, in November 2016, the company has listed its shares on NSE Emerge platform.

APIL is an ISO 9001:2008 certified company, engaged in manufacturing of fertilizers such as Single Super Phosphate (SSP), Nitrogen Phosphate and Potassium (NPK), Zinc Sulphate, Organic Manure and Calcium Sulphate commonly known as soil conditioner. The company is also engaged in trading of fertilizers like Diammonium Phosphate (DAP), Urea and Ammonium Sulphate and others depending upon the demand of the customers. The manufacturing facilities of the company are located at Dewas and Meghnagar, Madhya Pradesh. It had started commercial operation of its Meghnagar plant from FY15 onwards. At Dewas, It has total installed capacity of 45000 Metric Tonnes Per Annum (MTPA) of SSP, 30000 MTPA of GSSP and 15000 MTPA of NPK and at Meghnagar, it has total installed capacity of 1,15,000 MTPA of SSP, 60000 MTPA of GSSP and 36000 MTPA of NPK as on March 31, 2016.

Further, the promoters of APIL have promoted Nafco Commodities Private Limited which is engaged in trading of Agriculture Commodities.

As per the audited result of FY16 (refers to the period April 01 to March 31), APIL reported a total operating income of Rs.79.41 crore (FY15: Rs.67.48 crore) with a net profit of Rs.2.41 crore (FY15: Rs.10.01 crore).

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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	-	-	-	15.00	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A3

**Annexure 2: Rating History for 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB-; Stable	-	-	-	-
2.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A3	-	-	-	-

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