

Agro Phos (India) Limited

September 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	17.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A4+ (A Four Plus)	Reaffirmed
Total	23.00 (Rupees Twenty Three Crore only)		

Details of facilities in Annexure -1

Detailed Rationale and key rating drivers

The ratings assigned to bank facilities of Agro Phos (India) Limited (APIL) continue to remain constrained on account of its moderate scale of operations with moderate profitability in FY20 (FY; refers to the period April 1 to March 31) and Q1FY21 (Unaudited). The ratings, further, continue to remain constrained on account of dependency of revenue on climatic conditions with risk regarding availability of raw material and foreign exchange rate fluctuation risk.

The ratings, however, continue to draw strength from experienced management with established track record of operations and established marketing network. The ratings, further, continue to derive strength from its comfortable capital structure and moderate debt coverage indicators.

Rating Sensitivities

Positive Factors

- Growth in Total Operating Income (TOI) and Gross Cash Accruals (GCA) by more than 25% on a sustained basis
- Sustaining debt coverage indicators and capital structure at current levels

Negative Factors

- De-growth in TOI and GCA by more than 40%
- Deterioration of capital structure marked by an overall gearing ratio of 1.50 times or higher along with deterioration in overall liquidity profile

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations and profitability

Scale of operations as marked by total operating income (TOI) of the company remained moderate at Rs.70.03 crore during FY20 which is in line with previous year TOI of Rs.72.13 crore. Profitability of APIL improved over previous years and continued to remain moderate marked by PBILDT margin of the company at 11.22% (Rs.7.86 crore) during FY20 as against 7.29% (Rs.5.26 crore) during FY19 mainly on account of higher amount of subsidy received from the government during FY20. However, the selling expenses increased during FY20 on account of increase in freight and forwarding charges during FY20. Resultantly, PAT margin also improved and continued to remain moderate at 5.60% (Rs.3.92 crore) during FY20 as against 1.15% (Rs.0.83 crore) reported during FY19.

Working capital intensive nature of operations

Operations of APIL remained working capital intensive as marked by operating cycle of APIL remained elongated at 164 days during FY20 as against 135 days during FY19 owing to higher inventory holding period during FY20. APIL generally maintains higher inventory owing to scarcity of raw materials in India, while inventory level also increased to Rs.26.90 as on March 31, 2020 as against Rs.19.02 as on March 31, 2019 led by lower conversion of raw material to finished goods due to lockdown on account of COVID-19. Average working capital limits utilization remained high at around 95% during past twelve months period ended August, 2020.

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

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

Rock Phosphate being one of the important raw materials for manufacturing phosphatic fertilizers including Single Super Phosphate (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 is dependent on imported feedstock (rock phosphate, phosphoric acid), as domestic capacities have not matched the growth in demand.

APL imports Rock Phosphate mainly from Egypt, and Jordan. Due to the limitation of source of rock phosphate and availability issue, the prices of rock phosphate has witnessed fluctuating trend, also rising trend in the price of rock phosphate in the international market, the availability of rock phosphate for manufacturing of SSP has been affected.

Dependency of revenue on climatic conditions

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. This may result into increase in its working capital requirement and adversely affect the profitability margins of the company.

Key Rating Strengths***Experienced management with established track record of operations***

Indore (Madhya Pradesh) based Agro Phos (India) Limited (APIL) was initially formed in 2001 as a partnership concern, while it is currently listed as a public limited company on NSE main board.

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, director, has around one decade of experience in the industry and looks after production and finance functions of the company.

Established marketing and distribution network of its products

The company sells its products to cooperative societies as well as dealers located in Madhya Pradesh, Maharashtra and Chhattisgarh. The company sells its products under its own brand name of "Smriddhi", "Swaraj" and "Ratna". APL has appointed around 200 dealers, 18 marketing team and 12 warehouses for sale of its products. It also sells its product through Indian Potash Limited.

Comfortable capital structure and moderate debt coverage indicators

The capital structure of the company remained comfortable as on March 31, 2020 as marked by an overall gearing ratio of 0.47 times, improved marginally marginally from 0.55 times as on March 31, 2019 owing to increase in level of net-worth led by accretion of profits to reserves.

Debt coverage indicators of APIL continued to remain moderate as marked by total debt to gross cash accruals (TDGCA) of 3.74 years as on March 31, 2020 which significantly improved from 8.12 years as on March 31, 2019 owing to increase in level of gross cash accruals led by higher operating profits booked during FY20. The interest coverage ratio also improved and remained moderate at 3.46 times during FY20 as against 2.03 times during FY19 owing to increase in operating profits during FY20.

Impact of COVID-19 on business operations of APIL

APIL is engaged in manufacturing of fertilizers such as Single Super Phosphate (SSP), Nitrogen Phosphorus and Potassium (NPK), Zinc Sulphate (ZS), 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 agricultural commodities. Due to nationwide lockdown declared by the Government on account of COVID-19 pandemic, the business operations had been halted from March 23, 2020 to March 31, 2020. However, its final products being essential commodities, APIL resumed its operations from April 01, 2020 and has not faced any labour shortage.

Liquidity Position: Adequate

Liquidity position of APIL remained adequate during FY20 marked by current ratio of 1.65 times as on March 31, 2020 as against 1.76 times as on March 31, 2019 owing to increase in the value of current liabilities on account of higher outstanding trade payables as on balance sheet date led by higher value of raw materials purchased during March, 2020. Net cash flow from operating activities though increased from FY19, remained moderate at Rs.4.21 crore during FY20, while cash and bank balance remained at Rs.0.97 crore as on March 31, 2020. Furthermore, GCA level remained at Rs.4.86 crore during FY20 as against principal debt repayments of Rs.0.82 crore arising in FY21.

APIL has not availed any moratorium for any bank facility, while it has availed enhancement in form of Working Capital Term Loan of Rs.2.90 crore under COVID-19 relief measures which is fully disbursed till August, 2020.

Analytical Approach: Standalone

Applicable Criteria

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

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

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Fertilizer Companies](#)

[Liquidity analysis of Non-financial sector entities](#)

[Criteria for Short Term Instruments](#)

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

About the Company

Indore (Madhya Pradesh) based 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, it was converted into private limited company and thereafter the company changed its constitution from private limited to closely held public limited company in March, 2004. As on March 31, 2019, it has shifted from NSE SME platform (NSE Emerge) to the main board of NSE.

APIL is engaged in manufacturing of fertilizers such as Single Super Phosphate (SSP), Nitrogen Phosphorus and Potassium (NPK), Zinc Sulphate (ZS), 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 agriculture commodities. The manufacturing facilities of the company are located at Dewas and Meghnagar, Madhya Pradesh. At Dewas, it has total installed capacity of 63000 Metric Tonnes Per Annum (MTPA) which comprises of 45000 MTPA of SSP, 15000 MTPA of NPK and 3000 MTPA of ZS and installed capacity of Meghnagar plant comprises of 115500 MTPA of SSP, 36000 MTPA of NPK, 36000 MTPA of ZS.

Brief Financials (Rs. crore)	31-03-2019	31-03-2020
	A	A
Total operating income	72.13	70.03
PBILDT	5.26	7.86
PAT	0.83	3.92
Overall gearing (times)	0.55	0.47
Interest coverage (times)	2.03	3.46

A: Audited

Till Q1FY21, APIL has reported TOI of Rs.18.10 crore with PBILDT of Rs.1.24 crore and PAT of Rs.0.44 crore.

Status of non-cooperation with previous CRA: ICRA has suspended rating assigned to the bank facilities of APIL vide press release dated November 07, 2014 on account of non-cooperation by APIL with ICRA's efforts to undertake a review of the ratings outstanding.

Brickwork Ratings has put ratings assigned to the bank facilities of APIL in to 'Non Cooperation' vide press release dated February 10, 2020 on account of non-cooperation by APIL with Brickworks' efforts to undertake a review of the ratings outstanding.

Any other information: Not Applicable

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-Cash Credit	-	-	-	17.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	6.00	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 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-Cash Credit	LT	17.00	CARE BB+; Stable	-	1)CARE BB+; Stable (23-Aug-19) 2)CARE BB+; Stable; ISSUER NOT COOPERATING* (03-Apr-19)	1)CARE BB+; Stable (18-Oct-18) 2)CARE BBB-; Stable (02-Apr-18)	1)CARE BBB-; Stable (13-Apr-17)
2.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A4+	-	1)CARE A4+ (23-Aug-19) 2)CARE A4+; ISSUER NOT COOPERATING* (03-Apr-19)	1)CARE A4+ (18-Oct-18) 2)CARE A3 (02-Apr-18)	1)CARE A3 (13-Apr-17)

Annexure 3: 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.	Non-fund-based - ST-Letter of credit	Simple

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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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.

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