Amruth Organic Fertilizers

November 26, 2020

Rating

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	16.00 (Enhanced from 10.00)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE C; Stable; (Single C; Outlook: Stable)
Total Bank Facilities	**16.00 (Rs. Sixteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Amruth Organic Fertilizers (AOF) takes into account increasing total operating income with satisfactory profitability margins and improved debt coverage indicators during FY20 Provisional (refers to the period from April 01 to March 31). The rating continues to be tempered by small scale of operations albeit year on year growth, leveraged capital structure, elongated operating cycle, customer concentration risk and tender based nature of operations in highly fragmented and competitive nature of industry and constitution of the entity as a partnership firm. The ratings, however, continue to derive strength from experience of partners for more than a decade in fertilizer industry and healthy demand for organic fertilizers.

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.28.00 crore
- The firm maintains PBILDT margins and PAT margins not less than 10.00% and 4.00% 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. 23.40 Crore in FY20 (Prov.). The total operating income of the firm has been increasing at CAGR of 25.46% during the review period (FY18- FY20). The TOI improved to Rs. 23.40 crore in FY20 (Prov.) as against Rs. 16.95 crore in FY19 and Rs. 11.85 crore in FY18 due to increase in orders from existing customers and addition of new customers supported by increased production and demand.

Leveraged capital structure and moderate debt coverage indicators

The capital structure of the firm marked by overall gearing ratio continuous to remain leveraged. However, improved from 5.24x as on March 31, 2019 to 3.78x as on March 31, 2020 (Prov.) due to increase in net worth on back of accretion of profits to reserves. The debt profile of the firm consists of working capital borrowings of Rs. 6.25 Crore, term loan of Rs. 4.04 crore, vehicle loan of Rs. 0.82 crore and Interest free unsecured loans of Rs. 0.52 crore from Partners and their relatives as on March 31, 2020 (Prov.).

The debt coverage indicators of the firm marked by interest coverage ratio improved and stood moderate at 2.55x in FY20 (Prov.) as compared to 1.85x in FY19 due to decrease in interest cost during the year. The total debt/GCA stood at 7.82x in FY20 (Prov.), improved from 14.27x in FY18 on account of significant increase in gross cash accruals albeit to increase in total debt levels.

Elongated operating cycle

The operating cycle of the firm continue to remain elongated at 150 days in FY20 (Prov.) due to high inventory holding period as the firm stocks up the raw materials in order to meet the orders without any interruption in the manufacturing process. The firm procures raw material from local suppliers in the state of Karnataka. Further, the client base of the firm includes government of Karnataka and other local 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. Further, average utilization of working capital limit stood at 95-100% during last 12 months ending October 2020.

Customer concentration risk

AOF having more than 70% of its revenue from the government of Karnataka in FY20 (Prov.) exposes it to customer concentration risk.

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

The firm receives 60-70% work orders from the government of Karnataka. 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.

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. 0.12 Crore during FY19 and FY20 (Prov.).

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 profitability margins

The profitability margins of the firm although remained satisfactory but fluctuated in the range bound from 12.66%-22.31% in last three financial years ended FY20 (Prov.). During FY20 (Prov.), PBILDT margin of the firm has declined and stood at 12.66% as compared to 22.31% in FY19 mainly on account of increase in the execution of orders as the firm bids for the tenders with low profit margin. The major operating expenses are being absorbed by material purchases, power & fuel, labour charges and other overhead expenses. Further, PAT margin of the firm also declined and stood at 4.44% in FY20 (prov.) compared to 5.61% in FY19 due to decrease in PBILDT albeit decrease in interest costs and finance charges. However, the gross cash accruals of the firm has improved and stood at Rs. 1.49 crore in FY20 (prov.) as against Rs.1.45 crore in FY19

Healthy demand for organic fertilizers

Due to the heavy usage of chemical fertilizers, the Indian agriculture industry is facing challenges. The sustainability of agriculture systems has collapsed, which, in turn, has compelled the Government to emphasize the production and utilization of bio fertilizers or organic fertilizers. These variants consist of organic compounds which help in increasing soil fertility and production efficiency without harming the crop or soil health. Besides this, the Department of Agriculture and Cooperation is also promoting the use of fortified and customized fertilizers to increase the utilization of micro-nutrients and to achieve maximum efficiency. Moreover, the Government is encouraging fertilizer companies to establish joint ventures with foreign manufacturers and enter into long term agreements for the supply of fertilizers and fertilizer inputs. Looking forward, the market value is projected to reach INR 11,116 Billion by 2024, growing at a CAGR of 12.3% during 2019-2024.

Liquidity Analysis: Stretched liquidity marked by tightly matched accruals to repayment obligations, fully utilized bank limits during last 12 months ending October 31, 2020 with low cash balance of Rs. 0.13 Crore and above unity current ratio of 1.09x as on March 31, 2020(Prov.). Further, the firm had availed moratorium from March 01, 2020 to May 31, 2020 on its debt obligations.

Analytical approach: Standalone

Applicable criteria:

Criteria on assigning Outlook to Credit ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology-Fertilizer Companies
Rating Methodology-Manufacturing Companies

About the Firm

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 Nagraj 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". Currently, AOF has 300 employees including skilled and unskilled staff. The firm receives 70% of orders from the government of Karnataka through participating in tenders and remaining from local traders and farmers. The firm has its manufacturing facility at Malladihalli, chitradurga district, Karnataka with installed capacity of 5000MT and 5000 Litres.

Brief Financials (Rs. crore)	FY19 (A)	FY20(P)
Total operating income	16.95	23.40
PBILDT	3.78	2.96
PAT	0.95	1.04
Overall gearing (times)	5.24	3.78
Interest coverage (times)	1.85	2.55

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

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-Term Loan	-	-	August 2024	10.30	CARE B+; Stable
Fund-based - LT-Bank Overdraft	-	-	-	5.70	CARE B+; 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 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-Term Loan	LT	10.30	CARE B+; Stable	1)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)	1)CARE B+; Stable (17-May-17)
2.	Fund-based - LT-Bank Overdraft	LT	5.70	CARE B+; Stable	1)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)	1)CARE B+; Stable (17-May-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Term Loan	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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