

Krishana Phoschem Limited

March 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term / Short term Bank Facilities	17.00	CARE BBB; Stable/ CARE A3 (Triple B; Outlook: Stable/A Three)	Reaffirmed
Total Bank Facilities	17.00 (Rupees Seventeen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KrishanaPhoschem Limited (KPL) continue to derive strength from the wide experience of the management in the fertilizer industry with strong group support, association of the group with single reputed customer; ShriramFertilisers & Chemicals (SFC) which is a unit of DCM Shriram Limited (DCM) and its financial risk profile marked by comfortable solvency position and moderate liquidity position. The ratings, further, continue to derive strength from integrated plant for manufacturing captive Beneficiated Rock Phosphate (BRP) for Single Super Phosphate (SSP) and Granular Single Super Phosphate (GSSP).

The ratings, however, continue to remain constrained on account of its fluctuating scale of operations and profitability during last three financial years ended FY16 (refers to the period April 1 to March 31). The ratings are, further, continue to remain constrained on account of vulnerability of the profit margins to fluctuation in raw material prices and foreign exchange rates, raw material availability risk associated with its BRP unit, challenges of operating in a highly regulated fertilizer industry and project implementation risk associated with its ongoing project.

The ability of KPL to increase its scale of operations while improving/maintaining profitability, efficient management of working capital and changes in government policy with respect to Single Super Phosphate (SSP) shall be the key rating sensitivities. Further, the ability of the company to complete the project within envisaged time and cost parameters and achievement of envisaged level of revenue and profitability is also key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with strong group support and strong financial risk profile

Ostwal group is into fertilizer and ancillary activities since 2002 through its flagship company, OPL. The group companies are getting benefits in terms of experienced management with strong financial support and their established relationship with single reputed customer as well as raw material suppliers. During FY16, TOI of the Ostwal group grew over FY15 mainly on account of increase in sales in KPL and OPL. Further, profitability of the group stood healthy along with comfortable solvency position.

Reputed customer for the sale of SSP

KPL enters into annual sales and marketing contract with DCM, its sole customer, for the sale of SSP under the DCM's brand name of 'Shriram Super' which renew in every years. As DCM is a major player in the fertilizer industry with established brand name and dealer network, KPL has been benefitted in terms of its association with a reputed brand in the fertilizer industry.

Comfortable solvency position

The capital structure of the company stood moderate and improved over FY15, attributed to accretion of profit to reserve offsetting marginally higher total debt level. Further, the debt service coverage indicators of the company stood stable along with moderate interest coverage during FY16.

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

Moderate liquidity position

The liquidity profile of the company stood moderate with moderate liquidity ratios and operating cycle in FY16.

Key Rating Weakness**Fluctuating TOI and decline in profitability margins**

The scale of operations of KPL as indicated by TOI has witnessed fluctuating trend albeit grew significantly by around 17% y-o-y on the back of higher quantum of its product profile being, which was offset to an extent by lower sales realization of SSP and GSSP in FY16.

During FY16, PBILDT margin of the company registered decline over FY15, mainly on the back of higher cost of raw material consumed, which was offset to an extent by lower freight and transportation charges. In line with PBILDT margin, PAT margin of the company also decreased over FY15, although lower in quantum than PBILDT margin mainly on account of lower depreciation as well as interest expenses backed by lower utilization of its working capital limit.

Highly regulated fertilizer industry

Fertilizer industry is characterized by government control on prices and frequent changes in policies in last five years. However, the implementation of NBS policy in April 2010 has recognized that the value of each nutrient is the same irrespective of the source. Under the NBS policy, subsidy for SSP has been reduced to Rs.2343 per MT for the year 2016-17 as against Rs.3173 per MT for the year 2015-16.

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: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Rating Methodology - Fertilizer](#)

About the Company

KPL was incorporated in 2004 by Mr. Roop Lal Patel, Mr. Dilip Kumar Gadia and Mrs. GeetaPaliwal with the objective to manufacture BRP or high-grade rock phosphate, produced through the processing of low-grade rock phosphate ore, at its plant located at Meghnagar, Madhya Pradesh. KPL commenced operations in 2005 and reported losses till 2007. During this period, the ownership of the company changed twice with the present promoters, the 'Ostwal Group', acquiring the company in 2007.

Bhilwara based 'Ostwal Group' has been promoted by Mr. M.K. Ostwal. The 'Ostwal Group' has business interest in fertilizers, bio-fertilizers, mineral beneficiation, seeds and pesticides, textiles, real estate, import and export of agro commodities. KPL has an installed capacity to manufacture 1 Lakh Metric TonnesPer Annum (LMPA) of BRP, 1.20 LMPA of SSP and 0.90 LMPA of GSSP. KPL's plant (BRP, SSP and GSSP units) is located on the land under long-term lease from DIC, Govt. of M.P. for a period of 30 years upto the year 2034.

Status of non-cooperation with previous CRA: Not applicable

Any other information:Not applicable

Rating History for 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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/ ST-Cash Credit	-	-	-	17.00	CARE BBB; Stable/ CARE A3

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	17.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB / CARE A3 (15-Feb-16)	1)CARE BBB / CARE A3 (23-Sep-14)	1)CARE BBB- / CARE A3 (16-Jul-13)

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