# Krishana Phoschem Limited
**April 02, 2020**

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term/Short-term Bank Facilities | 17.00 | **CARE BBB; Positive/ CARE A3+ (Triple B; Outlook: Positive/ A Three Plus)** | **Reaffirmed** |
| Long term Bank Facilities | 10.75 | **CARE BBB; Positive (Triple B; Outlook: Positive)** | **Reaffirmed** |
| **Total facilities** | **27.75 (Rs. Twenty Seven crore and seventy five lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Krishana Phoschem Limited (KPL) continue to derive comfort from the wide experience of the management in the fertilizer industry with strong group presence, established marketing network and its integrated plant for manufacturing of fertilizer and chemical products. The ratings, further, continue to derive strength from diversified revenue stream with continuous increase in scale of operations, healthy profitability margins, comfortable solvency position and adequate liquidity position.

The ratings, however, continue to remain constrained on account of vulnerability of profitability margins to fluctuations in the raw material prices and foreign exchange rate, raw material availability risk associated with its BRP unit and challenges of operating in a highly regulated fertilizer and chemical industry.

Rating Sensitivities

*Positive Factors*

- Sustained increase in scale of operations to more than Rs.200 crore.
- Sustained improvement in profitability margin with PBILDT margin more than 25%.
- Improvement in liquidity position with operating cycle less than 75 days.

*Negative Factors*

- Deterioration in overall gearing above 1 times owing to any large size debt funded capex.
- Decline in PBILDT margin to less than 16% on sustained basis.
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- Deterioration in liquidity position with operating cycle more than 150 days.

**Outlook: Positive**

The outlook of the company remained 'Positive' on account of CARE's expectation of increase in scale of operations as well as profitability margins and improvement in working capital position. The outlook, however, may be revised to 'Stable' in case of lower than expected improvement in scale of operations as well as profitability margin, improvement in liquidity position and deterioration in capital structure owing to any major debt funded capex plans.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Experienced management with strong group support and strong financial risk profile of the group***

Ostwal group is promoted by Mr. Mahendra Kumar Ostwal, Chairman and Managing Director of the Ostwal Group, who has more than two decades of experience in the fertilizer industry and is assisted by his sons, Mr. Pankaj Ostwal and Mr. Praveen Ostwal. Further, the directors are assisted by a team of professionals looking after various business functions. The group concern includes Madhya Bharat Agro Products Limited (MBAPL, rated CARE BBB; Stable) and Ostwal Phoschem (India) Limited (OPL, rated CARE BBB; Stable). The group companies are benefited in terms of experienced management with financial support and their established position in the fertilizer business. OPL has 45.17% stake in KPL and 37.71% stake in MBAPL as on March 31, 2019.

***Marketing arrangement of its products***

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

Till March 31, 2018, the Ostwal group was marketing its fertilizers through Shriram Fertilizers (SFS) a unit of DCM Shriram Limited. However, due to change in policy of subsidy claim where manufacturer will get subsidy instead of marketing company as well as discontinue of use of brand name of marketing company, it discontinued its agreement with SFS. From April 01, 2018, the group is marketing its fertilizer products under the own brand name of "ANNADATA" in the states of Madhya Pradesh, Gujarat, Maharashtra, Rajasthan, Punjab, Haryana, Udisha, Himachal Pradesh, Utter Pradesh and Uttarakhand. The group has appointed a network of 1000 distributors (which include SFS also) who in turn supply to more than 9000 dealers. Further, it sales fertilizer to government owned co-operative societies as well. Furthermore, the company is marketing chemicals and mainly selling to various traders as well as manufacturing companies.

***Diversified revenue stream with continuous increase in scale of operations***

The scale of operations of KPL as indicated by Total Operating Income (TOI) has witnessed continuous growth and during FY19, TOI has improved by around 59.58% over FY18 owing to ramp up of operations in its chemical division as well as increase in sales in fertilizer segment. During FY19, it has generated 47.62% (53.36% in FY18) of net sales from fertilizer segment whereas 52.38% (46.64% in FY18) of net sales from chemical segment.

***Healthy profitability margins***

The profitability of the company improved y-o-y basis and stood healthy with PBILDT and PAT margin of 22.04% and 9.42% respectively in FY19 as against 20.13% and 3.69% respectively in FY18. During FY19, PBILDT margin of the company has improved by 191 bps over FY18 mainly on account of higher margin in chemical segment which offset to an extent by lower margin in fertilizer segment. In fertilizer segment, margin has declined mainly due to high raw material cost.

***Comfortable solvency position***

The capital structure of the company stood comfortable with an overall gearing of 0.38 times as on March 31, 2019, improved from 0.60 times as on March 31, 2018 owing to decline in total debt level as well as accretion of profit to reserves. However, the capital structure may deteriorate going forward owing to its plan to take debt funded capex. KPL is planning to setup new project Di-Ammonia phosphate (DAP) 1000 TPD, Phosphoric Acid 100% 300TPD & Sulphuric Acid 500 TPD at AKVN Ind. Area, Meghnagar Dist Jhabua (M.P.). It has envisaged to commence project work from FY22.

Further, the debt service coverage indicators of the company stood comfortable with total debt to GCA of 1.24 times as on March 31, 2019, improved from 3.33 times as on March 31, 2018 owing to increase in GCA level and decline in total debt level. Interest coverage stood comfortable at 9.89 times during FY19 as against 3.36 times during FY18 due to increase in PBILDT level as well as decline in interest and finance cost.

**Key Rating Weakness**

***Higher volatility in the prices of rock phosphate and higher import dependency due to low indigenous reserves and Foreign exchange fluctuation risk***

Rock Phosphate being one of the important raw material for manufacturing phosphatic fertilizers including 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 majorly imports rock phosphates from countries like Egypt, Bangladesh, Morocco, US and Middle East. During FY19, it directly imported rock phosphate 25800 MT through high sea sales agreement. However, during FY20, the company has purchased low grade rock phosphate and converted into Beneficiated rock phosphate in its own plant which will reduce the cost of raw material. Furthermore, the profitability is exposed to fluctuation in foreign exchange rate as it does not have any active hedging policy.

***Highly regulated fertilizer and chemical industry***

Fertilizer industry is characterized by government control on prices and frequent changes in policies. Till December, 2017, the subsidy on SSP was being claimed and reimbursed by the Government to marketer. But, with effect from January 01, 2018 the subsidy need to be claimed by the manufacturers itself. DBT in fertilizer is meant to transfer subsidies to manufacturers upon authentication of purchase by farmers which can help restricting diversion, prevent leakages, and bring about greater transparency, accountability and efficiency in the system. For FY20, the government has revised the nutrient based subsidy rate only for sulphur by increasing it by 31.9% while keeping the rates for nitrogen, phosphorus and potassium unchanged.

**Liquidity: Adequate**

The liquidity position of the company stood adequate marked by healthy cash accruals available for debt repayment obligations. It has cash and bank balance of Rs.2.14 crore as on September 30, 2019. Further, it has generated cash flow from operating activities of Rs.19.00 crore in FY19 as against cash flow from operating activities of Rs.24.37 crore in FY18 owing to

higher working capital changes. The operating cycle of the company stood at 95 days in FY19, improved from 130 days in FY18 owing to lower inventory holding period and lower collection period. The company procures primary raw material through domestic market as well as import from Egypt and maintains higher inventory to meet regular orders of distributors as it is seasonal in nature. The average inventory period stood around 90-150 days. Further, the company gives credit period of 15-30 days to its distributor and gets payment from co-operating societies in 2 to 3 months. It gets subsidy within one month. Due to it, the company's dependence on working capital limits stood high marked by average utilisation of around 81.12% during past 12 months ended December 2019. The current ratio of the company stood moderate at 1.26 times whereas quick ratio stood below unity at 0.64 times as on March 31, 2019.
**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Fertilizer Companies
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

**About the Company**
KPL was incorporated in 2004 by Mr. Roop Lal Patel, Mr. Dilip Kumar Gadia and Mrs. Geeta Paliwal. Subsequently, in 2007, the 'Ostwal Group', has acquired the company. KPL is engaged in the manufacturing of fertilizer and chemical. KPL has an installed capacity to manufacture 2 Lakh Metric Tonnes Per Annum (LMPA) of BRP, 1.20 LMPA of SSP, 0.90 LMPA of GSSP, 0.99 LMPA of Sulphuric Acid and 1324 MTPA for Chemical products (Dyes Intermediate) as on March 31, 2019.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 95.87 | 152.99 |
| PBILDT | 19.30 | 33.72 |
| PAT | 3.54 | 14.41 |
| Overall gearing (times) | 0.60 | 0.38 |
| Interest coverage (times) | 3.36 | 9.89 |

*A=Audited*

In 9MFY20, the company has registered TOI of Rs.138.34 crore with PBILDT and PAT margin of 20.29% and 9.54% respectively.

**Status of non-cooperation with previous CRA: None**
**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/ ST-Cash Credit | - | - | - | 17.00 | CARE BBB; Positive / CARE A3+ |
| Fund-based - LT-Term Loan | - | - | November – 2021 | 10.75 | CARE BBB; Positive |

**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 | Date(s) & Rating(s) assigned in | Date(s) & Rating(s) assigned in | Date(s) & Rating(s) assigned in |

| | | | | | 2019-2020 | 2018-2019 | 2017-2018 | 2016-2017 |
|---|---|---|---|---|---|---|---|---|
| 1. | Fund-based - LT/ ST-Cash Credit | LT/ST | 17.00 | CARE BBB; Positive / CARE A3+ | 1)CARE BBB; Positive / CARE A3+ (03-Apr-19) | 1)CARE BBB; Stable / CARE A3 (03-Apr-18) | - | 1)CARE BBB; Stable / CARE A3 (14-Mar-17) |
| 2. | Fund-based - LT-Term Loan | LT | 10.75 | CARE BBB; Positive | 1)CARE BBB; Positive (03-Apr-19) | 1)CARE BBB; Stable (03-Apr-18) | - | - |

***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:**

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