

Krishana Phoschem Limited
April 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	16.67	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long term / Short term Bank Facilities	17.00	CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	33.67 (Rupees Thirteen crore and sixty seven lakh only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Krishana Phoschem 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, Shriram Fertilizers (SFS); 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, derives 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, continues to remain constrained on account of its fluctuating scale of operations and profitability during last three financial years ended FY17 (refers to the period April 1 to March 31). The rating is further 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.

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 SSP shall be the key rating sensitivities.

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 is promoted by Mr. Mahendra Kumar Ostwal, Chairman and Managing Director of Ostwal group, who has more than two decades of experience in the SSP 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 companies are getting benefits in terms of experienced management with strong financial support and their established relationship with single reputed customers as well as raw material suppliers.

Reputed customer for the sale of SSP

MBAPL, KPL and OPL enter into annual sales and marketing agreement with Shriram Fertilizers (SFS) since 2005-06 for supply of SSP and GSSP. The group directly supplies its entire output of SSP and GSSP to SFS's dealer network under the brand name 'Shriram Super'. As SFS is a major player in the fertilizer industry with established brand name and dealer network, the group has been benefitted in terms of its association with a reputed brand in the fertilizer industry. Further, the group has been getting assistance from SFS in the form of purchase of imported rock phosphate through high sea sale by SFS as well as getting advance amount from SFS against the unsold SSP inventory lying with the dealers of SFS.

Comfortable solvency position

The capital structure of the company stood comfortable with an overall gearing of xxx times as on March 31, 2017. Further, the debt service coverage indicators of the company stood stable along with moderate interest coverage during FY17.

Moderate liquidity position

The liquidity position of KPL remained moderate with average working capital utilisation of 93% for the last 12 months ended January 31, 2018. Further, the liquidity ratios of the company stood moderate with current ratio stood at 1.34 times as on March

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

31, 2017, although quick ratio remained below unity at 0.62 times as on March 31, 2016 due to higher investment in the inventory along with higher short term debt comprising of working capital bank borrowings. The working capital cycle of the company stood elongated at 163 days in FY17, deteriorated from 127 days in FY16 owing to increase in inventory level.

Improvement in profitability margins and Gross Cash Accruals (GCA)

The profitability of the company improved and stood healthy in FY17. During FY17, PBILDT margin of the company improved over FY16, mainly on the back of lower cost of raw material consumed. In line with PBILDT margin, PAT margin of the company also improved, although lower in quantum than PBILDT margin mainly on account of higher depreciation charges. Overall, GCA level of the company has improved by 39.95% over FY16 and stood at Rs. 10.69 crore.

Key Rating Weakness

Decline in scale of operations

The scale of operations of KPL as indicated by TOI declined by around 10.23% in FY17 over last financial year on the back of lower quantum of its product profile being sold and sales realization. In FY17, sales volume of SSP declined by 19.07% and sales prices declined by 3.13% over FY16. Further, sales volume of GSSP improved by 47.64% however, sales prices declined by 9.10% over FY16.

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.2166 per MT for the year 2017-18 as against Rs.2343 per MT for the year 2016-17.

Further, 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.

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](#)

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

[Rating Methodology - Fertilizer](#)

About the Company

Krishana Phoschem Limited (KPL) was incorporated in 2004 by Mr. Roop Lal Patel, Mr. Dilip Kumar Gadia and Mrs. Geeta Paliwal 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.

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total Operating Income	90.13	80.90
PBILDT	13.35	16.58
PAT	1.38	3.3
Overall gearing (times)	0.65	0.71
Interest coverage (times)	2.81	3.92

(A; Audited)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

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-Term Loan	-	-	November, 2021	16.67	CARE BBB; Stable
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	17.00	CARE BBB; Stable / CARE A3	-	-	1)CARE BBB; Stable / CARE A3 (14-Mar-17)	1)CARE BBB / CARE A3 (15-Feb-16)
2.	Fund-based - LT-Term Loan	LT	16.67	CARE BBB; Stable	-	-	-	-

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