Krishana Phoschem Limited

April 03, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long term / short term Bank Facilities	17.00	**CARE BBB; Positive / CARE A3+ (Triple B; Outlook: Positive / A Three Plus)**	Long term facilities reaffirmed and short term facilities revised from CARE A3 (CARE A Three); Outlook revised from Stable
Long term Bank Facilities	10.75	**CARE BBB; Positive (Triple B; Outlook: Positive)**	Reaffirmed; Outlook revised from Stable
Total	**27.75 (Rupees Twenty Seven Crore and Seventy Five Lakh only)**		

Detailed Rationale & Key Rating Drivers

The revision in the short term rating of Krishana Phoschem Limited (KPL) takes into account significant improvement in scale of operations in FY18 (FY refers to April 01 to March 31) over last financial year as well as in H1FY19 and improvement in profitability margins with improvement in GCA level.

The ratings, further, continue to derive strength from the wide experience of the management in the fertilizer industry with strong group presence, diversified revenue stream, 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), Granular Single Super Phosphate (GSSP) and chemical products.

The ratings, however, continue to remain constrained on account of vulnerability of the profitability margins to fluctuation 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.

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 fertilizer shall be the key rating sensitivities.

Outlook: Positive

The revision in the outlook from 'Stable' to 'Positive' is 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 and improvement in liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with strong group support and strong financial risk profile

Ostwal 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 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) and Ostwal Phoschem (India) Limited (OPL). The group companies are getting benefits in terms of experienced management with strong financial support and their established relationship. OPL has 40.88% stake in KPL and 32.88% stake in MBAPL as on March 31, 2018.

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

Marketing arrangement of its products
Till March 31, 2018, Ostwal group markets 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 and hence, it discontinue its agreement with SFS. From April 01, 2018, It is marketing its fertilizer products under the own brand name of "ANNADATA" in the 10 states of India. It has appointed a network of 378 wholesalers (which includes SFS also) who subsequently supply to more than 9000 dealers. Further, it sales 50% to distributors and 50% to government owned co-operative societies. Further, the company is marketing chemicals in Gujarat state and mainly selling to various traders as well as manufacturing companies.

Diversified revenue stream with increase in scale of operations and Improvement in profitability margins and GCA
The scale of operations of KPL as indicated by Total Operating Income (TOI) has improved by around 19.44% in FY18 over Fy17 owing to ramp up of operations in its chemical division which offset to an extent decline in sales in fertilizer segment. It has started commercial operations of its chemical division from October 2017.
The profitability of the company improved y-o-y basis and stood healthy with PBILDT and PAT margin of 20.77% and 3.66% respectively in FY18 as against 20.49% and 4.08% respectively in FY17. Further, GCA of the company has increased and stood at Rs.12.59 crore in FY18 as against Rs.10.69 crore in FY17.

Comfortable solvency position
The capital structure of the company stood comfortable with an overall gearing of 0.60 times as on March 31, 2018, improved marginally from 0.71 times as on March 31, 2018 owing to decline in total debt level as well as accretion of profit to reserves. Further, the debt service coverage indicators of the company stood comfortable with total debt to GCA of 3.33 times as on March 31, 2018, improved from 4.26 times in as on March 31, 2017 owing to increase in GCA level and low debt level. Interest coverage stood at 3.49 times during FY18 as against 3.92 times during FY17 due to higher interest expenses.

Moderate liquidity position
The liquidity position of KPL remained moderate with average working capital utilisation of 85.89% for the last 12 months ended December 31, 2018. Further, the liquidity ratios of the company stood moderate with current ratio stood at 1.19 times as on March 31, 2018, although quick ratio remained below unity at 0.62 times as on March 31, 2018 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 130 days in FY18, improved from 163 days in FY17 owing to decrease in inventory level. Further, cash flow from operating activities remained positive at Rs.25.13 crore as against Rs.12.32 crore in FY17 due to higher operating profit and decline in working capital gap. It has cash and bank balance of Rs.0.04 crore as on March 31, 2018.

Key Rating Weakness
Higher volatility in the prices of rock phosphate and higher import dependency due to low indigenous reserves
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 majorly imports rock phosphates from countries like Egypt, Bangladesh, Morocco, US, Middle East and China. 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. During FY18, it directly imported 5500 and 10190 MT through high sea sales agreement.

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. The only relief for the manufacturers is that the subsidy for the raw material phosphorus (P) has increased by 26.7% for FY19. Nutrient based subsidies for nitrogen (N) and potash (K) have been reduced by 0.5% and 10.4% respectively whereas subsidy for sulphur (S) has been increased by 20.5% for FY19.

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 - Fertilizer]
[Financial ratios – Non-Financial Sector]

Background of the Company

Krishana Phoschem Limited (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 has an installed capacity to manufacture 2 Lakh Metric Tonnes Per Annum (LMPA) of BRP, 1.20 LMPA of SSP/GSSP, 0.99 LMPA of Sulphuric Acid and 1324 MTPA for Chemical products (Dyes Intermediate).

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	80.90	96.63
PBILDT	16.58	20.07
PAT	3.30	3.54
Overall gearing (times)	0.71	0.60
Interest coverage (times)	3.92	3.49

A: Audited

Status of non-cooperation with previous CRA: None

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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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 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; Positive / CARE A3+	1)CARE BBB; Stable / CARE A3 (03-Apr-18)	-	1)CARE BBB; Stable / CARE A3 (14-Mar-17)	1)CARE BBB / CARE A3 (15-Feb-16)
2.	Fund-based - LT-Term Loan	LT	10.75	CARE BBB; Positive	1)CARE BBB; Stable (03-Apr-18)	-	-	-

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