MSRM Organics Private Limited

December 29, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	7.50	CARE B; Stable (Single B; Outlook Stable)	Assigned
Short-term Bank Facilities	1.50	CARE A4 (A Four)	Assigned
Total facilities	**9.00 (Rupees Nine Crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MSRM Organics Private Limited (MSRMOPL) are tempered by Implementation risk towards stabilization of operations, financial closure yet to be achieved, profitability margins susceptible to fluctuations in raw material prices and foreign exchange rates and presence in highly fragmented and competitive industry. However, the ratings are underpinned by the experienced management, operational synergy from associate company, location advantage of the plant, contract agreement with an established company albeit customer concentration risk and stable demand outlook for organic fertilizers industry.

Going forward, the ability of the company to complete the project without any cost and time overrun, stabilize the operations and generate the revenue and profit levels as envisaged and expand its customer base shall remain the key rating sensitivities.

Detailed Description of the key rating drivers

Key Rating Weaknesses

Financial closure yet to be achieved

The cost of the project is Rs. 10.89 crore of which the promoters have infused around Rs. 2 crore in the business for purchasing of land and construction of factory. The company is looking forward to avail bank borrowings comprising of term loan of Rs. 5 crore to fund the construction of shed and purchase of plant & machinery and working capital facility comprising of cash credit & foreign letter of credit of Rs. 2.5 crore and Rs. 1.5 crore to fund the working capital requirements. As on date, the funding pattern has been finalized by the promoters, however the proposed term loan is yet to be sanctioned by the bank and hence financial closure of the project has not yet been completely achieved by the company.

Implementation risk towards stabilization of operations

The directors of the company are setting up an organic fertilizer plant with a total estimated cost of Rs. 10.89crore which is to be funded through a bank term loan of Rs. 5crore and rest of Rs. 2crore and Rs. 3.89 crore from promoters own funds and unsecured loans from related parties respectively. As on December 14, 2017, the company had incurred expenses of Rs. 2.28 crore which is around 21% of the total project cost towards land purchase, development, construction of factory, licenses & approvals and the same was funded through promoter’s own funds and a part through

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

unsecured loans. The commercial operations of the company are expected to start from April 2018. Therefore, project implementation risk exists towards stabilization of operations as only 21% of the project has been completed till date. Furthermore, the company has to complete the project without any cost overrun and time overrun which will remain critical from credit perspective.

Profitability margins susceptible to fluctuations in raw material prices and foreign exchange rates

The company would be importing its main raw material i.e. organic granules from Vietnam via the Krishnapatnam port located near the plant location. Due to the significant amount of imports, it is exposed to foreign currency fluctuation risk which would impact the profitability margins of the company. Furthermore, being a new player in the segment, the company possesses limited pricing power and thus is exposed to volatility in the raw material prices.

Presence in highly fragmented and competitive industry

The company is operating in highly competitive and fragmented industry where the company witnesses intense competition from both the organized and largely unorganized players. This fragmented and highly competitive industry results into price competition thereby affecting the profitability margins of the companies operating in the industry.

Key Rating Strengths

Experienced management

Mr.Ravinder Rao Polsani, the promoter of the company has around three decades of prior experience in agriculture field. He is also the chairman and managing director of Taaza International Limited. Furthermore, the top management is assisted by second line of management having adequate experience in the industry. Mr.Polsani Rama Rao (graduate in agriculture), Mr. Raj Kumar Agarwal (post graduate in agriculture) and Mrs. Geetha Das (post graduate in management) who are having around 3 decades of experience would be leading the product development, business development and corporate sales departments respectively.

Operational synergy from associate company

Taaza International Limited, a public limited company listed on BSE, located at Hyderabad was incorporated in 2001. The company is engaged in trading of bio pesticides, bio fertilizers and pulses, as well as building materials. The company's segments include bio-pesticides, bio-fertilizers; FMCG, groceries & pulses; computers & peripherals, and building material. Mr Ravinder Rao Polsani is the chairman and managing director of this company as well. As per the audited financials, the net sales stood at Rs. 11830 lakhs in FY17. Operational support in terms of functionality will be provided by Taaza International Limited to aid the business operations of MSRMOPL.

Location advantage of the plant

The plant unit of the company is located in SPSR Nellore district in Andhra Pradesh, which is at close vicinity to the Krishnapatnam port. The company would be importing organic granules from Vietnam via the Krishnapatnam port. The presence of the port near the plant location will enable the company to procure the raw materials easily. This will cut down the transportation costs and will lower the expenses to be incurred by the company.

Contract agreement with an established company albeit customer concentration risk

The company has a contract agreement with an established company Pasura Crop Care Private Limited (PCC) to manufacture and sell its products. PCC has been in the crop growth industry in India serving farmers for over two decades having products ranging from plant protection, nutrients to growth enhancers. PCC has presence in over 10 most critical agri states with a base of over 2000 retail channel partners, already marketing over 100 brands. MSRM Organics Private Limited’s entire production is assured to be bought by PCC to distribute amongst its channel network. This said contract would be for at least a year and would be extended if needed by the company. This limits the revenue diversity; however the company is looking forward to diversify its revenue sources in the future years by adding the general customer base also i.e. farmers and dealers to its customer portfolio.

Stable demand outlook for organic fertilizers industry

Rapid development of organic agriculture coupled with augmenting demand for organic food is expected to increase the demand for organic fertilizers. The market for organic fertilizer has witnessed steady growth in the recent past owing to government support and favorable perception among farmers and end-users. As compared to chemical fertilizers, the production of organic fertilizers has less investment and high benefits. This factor is expected to augment the organic fertilizers market over the forecast period. Owing to the eco-friendly nature of organic fertilizers, governments in many countries have subsidised the prices, making it easier for farmers to use it. Government and environmental policies minimizing wastage and reduction in the consumption of non-biodegradable raw materials has led to an increased production of organic fertilizers. Regulations are also emphasizing more on human safety, so are supporting markets like organic fertilizers to reduce risk to human life and the environment.

Analytical approach: Standalone

Applicable criteria*:*

Criteria on assigning Outlook to Credit ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-FinancialSector

About the company

MSRM Organics Private Limited (MSRMOPL) was established in April, 2017 by Mr Ravinder Rao Polsani and Mr. Sai Shashank Pabbathi to manufacture bio fertilizers at its plant located at SPSR Nellore district in Andhra Pradesh. The organic agri inputs along with nutrients that are extensively used by the farmers in their crops for increasing the crop productivity would be manufactured by the company in three different forms: liquid, granules and powders. The installed capacity of the plant for liquid, powders and granules is 1500,000 litres, 90,000 Kgs and 5000,000 Kgs per annum respectively.

The commencement of production would be from April 2018. The factory land which is of an area of 1.50 acres costing Rs. 0.47 crore has already been purchased in the name of the company. The various licenses and approvals such as factory plan, electricity connection from Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL) and Panchayath NOC has been issued and the company has applied for NOC from pollution control board and fire department which is still under process. The cost of the project (setting up the plant) is Rs. 10.89 crore of which the promoters have infused around Rs. 2 crore as equity in the business for purchasing of land and construction of building and would be bringing in unsecured loans to the tune of Rs. 3.89 crore. The rest would be funded by the bank borrowings comprising of term loan of Rs. 5 crore.

Brief Financials: Not applicable since the company is yet to start its operations.

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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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	-	-	-	5.00	CARE B; Stable
Fund-based - LT-Cash Credit	-	-	-	2.50	CARE B; Stable
Non-fund-based - ST-ILC/FLC	-	-	-	1.50	CARE A4

**Proposed facilities*

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	5.00	CARE B; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	2.50	CARE B; Stable	-	-	-	-
3.	Non-fund-based - ST-ILC/FLC	ST	1.50	CARE A4	-	-	-	-

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