

Madhya Bharat Agro Products Limited

March 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	41.60	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	41.60 (Rupees Forty one crore and sixty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Madhya Bharat Agro Products Limited (MBAPL) continues to derive strength from the wide experience of the management in the fertiliser industry with strong group support, association of the group with a reputed customer Shriram Fertilisers & Chemicals (SFC) which is a unit of DCM Shriram Limited (DCM) and its financial risk profile marked by healthy profit margins, comfortable solvency and liquidity position. The rating, further, derives strength from its presence in the entire value chain from manufacturing of Sulphuric Acid (SA) to Beneficiated Rock Phosphate (BRP) to Single Super Phosphates (SSP) and Granule SSP (GSSP).

The rating, however, continues to remain constrained on account of its fluctuating scale of operations, vulnerability of the margins to fluctuation in the raw material prices and challenges of operating in a highly regulated fertilizer industry. The rating is further constrained on account of stabilization risk associated with its recently completed expansion project as well as those for backward integration and forward integration and project implementation risk associated for remaining project.

The ability of MBAPL to increase its scale of operations while maintaining profitability and changes in government policy with respect to SSP shall be the key rating sensitivities. Further, achievement of envisaged level of revenue and profitability from its recently completed expansion project as well as those for backward integration and forward integration project shall also be the 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

MBAPL enters into annual sales and marketing contract with DSCL, its sole customer, for the sale of SSP under the DCM's brand name of 'Shriram Super' which renew in every years. As DSCL 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.

Long term supply arrangement rock phosphate

Rock phosphate is a scarce material in India with its reserves concentrated in Rajasthan, Madhya Pradesh and Uttar Pradesh. MBAPL has signed an Memorandum of Understanding (MoU) for supply low grade rock phosphate with two companies. Owing to assured supply of raw material, MBAPL gets the benefit in terms of availability of raw material for its BRP plant at low transportation cost

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

Healthy profitability margins

PBILDT margin of the company has improved from FY15 mainly on account of decrease in cost of low grade rock phosphate, further, PAT margin also improved on account of higher deferred tax assets creation owing to capital expenditure in FY16. Moreover, as per 8MFY17 provisional result profitability remained healthy with PBILDT margin of 26.89% translating to improvement over FY16.

Comfortable liquidity position

The liquidity profile of the company stood comfortable with comfortable liquidity ratios i.e. current ratio and quick ratio stood at 3.82 times and 2.79 times as on March 31, 2016 along with 58.03% average working capital utilization in last twelve month ended August 2016 and operating cycle in FY16.

Key Rating Weakness**Marginal decline in Total Operating Income**

During FY16, TOI of MBAPL has decreased by 5.44% over FY15 mainly on account of lower other income. However, core business revenue of the company has grown marginally by 3.91% in FY16 over FY15. Further, as per 8MFY17 provisional result TOI of the company stood at around Rs.38.06 crore owing to lower production of SSP.

Deterioration in solvency position; though remained Comfortable

The capital structure of MBAPL remained comfortable although deteriorated from March 31, 2015 on account of increase in term loan for funding the capex which was partially offset by infusion of equity capital by the promoters and accretion of profits to reserves. Further, the debt service coverage indicators of the company stood comfortable along with comfortable interest coverage during FY16. Moreover, as per 8MFY17 provisional result solvency position stood comfortable, deteriorated marginally from March 31, 2016

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](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Rating Methodology - Fertilizer](#)

About the Company

MBAPL was incorporated as a private limited company by Mr. Shailendra Jain along with his relatives in 1997 to set up a Single Super Phosphate (SSP) manufacturing plant in Sagar district, Madhya Pradesh. In 1999, the constitution of the company was changed to public limited company. However, during 2003, MBAPL was referred to Board for Industrial and Financial Reconstruction (BIFR) due to accumulated losses on the back of non-availability of raw material. Afterwards, MBAPL was taken over by Bhilwara based Ostwal Group in September 2004 pending approval from BIFR and operations of MBAPL were turned around since January 2005. Further, in September 2016, it has come out with an IPO and has listed its shares in NSE SME Platform. Ostwal group is involved in the business of fertilizers, bio-fertilizers, mineral beneficiation, seeds and pesticides, textiles, real estate, import and export of agro commodities etc. through its group companies, Ostwal Phoschem (India) Limited (OPL; rated CARE BBB/ CARE A3) and Krishna Phoschem Ltd (KPL; rated CARE BBB/ CARE A3).

MBAPL has an installed capacity of 1,80,000 Metric Tonnes Per Annum (MTPA) for production of SSP, 45,000 MTPA for production of Beneficiated Rock Phosphate (BRP), 36,000 MTPA for production of Sulphuric Acid (SA) and 1,20,000 MTPA for production of Granule SSP (GSSP) as on March 31, 2016. BRP or high grade rock phosphate is an essential raw material

used in the manufacturing of phosphatic fertilizers including SSP. It has utilized 89.59% and 90.61% of capacity for production of SSP and BRP respectively in FY16. MBAPL has long term agreement for procurement of low grade rock phosphate with Madhya Pradesh State Mining Corporation Limited (MPSMCL, a Govt. of Madhya Pradesh enterprise)..

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	-	-	March, 2018	1.70	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	9.90	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	June, 2023	30.00	CARE BBB; Stable

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-Term Loan	LT	1.70	CARE BBB; Stable	1)CARE BBB (10-Oct-16)	1)CARE BBB (29-Dec-15)	1)CARE BBB (23-Sep-14)	1)CARE BBB- (26-Nov-13)
2.	Fund-based - LT-Cash Credit	LT	9.90	CARE BBB; Stable	1)CARE BBB (10-Oct-16)	1)CARE BBB (29-Dec-15)	1)CARE BBB (23-Sep-14)	1)CARE BBB- (26-Nov-13)
3.	Fund-based - LT-Term Loan	LT	30.00	CARE BBB; Stable	1)CARE BBB (10-Oct-16)	-	-	-

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