

**Madhya Bharat Agro Products Limited**  
**April 03, 2018**

**Rating**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long term Bank Facilities	32.31	<b>CARE BBB; Stable (Triple B; Outlook: Stable)</b>	<b>Reaffirmed</b>
<b>Total Bank Facilities</b>	<b>32.31 (Rupees Thirty two crore and thirty one lakh only)</b>		

**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 single reputed customer Shriram Fertilizers (SFS); 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, Ostwal Phoschem (India) Limited (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. OPL has 31.62% shareholding in MBAPL and 39.22% in Krishana Phoschem Limited (KPL).

**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.

**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 a 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.

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

### **Improvement in Total Operating Income (TOI), gross cash accruals (GCA) and profitability margins**

During FY17, TOI of MBAPL has grown by 26.28% over FY16 and stood at Rs. 81.71 crore mainly on account of improvement in sales volume its fertilizer business and commencement of operations of chemical business in FY17. Further, PBILDT margin of the company has improved significantly by 744 bps in FY17 over FY16 mainly on account of decrease in cost of low grade rock phosphate and SA. Further, PAT margin improved by 13 bps in FY17 over FY16 although lower than PBILDT mainly on account of higher interest and depreciation charges.

### **Comfortable solvency position**

The capital structure of MBAPL remained comfortable as on March 31, 2017; deteriorated from 0.27 times as on March 31, 2016 on account of increase in term loan for funding the capex which was partially offset by accretion of profits to reserves.

Further, owing to improvement in scale of operations as well as profitability total debt to GCA level improved from 2.15 times as on March 31, 2016 to 1.92 times as on March 31, 2017.

### **Comfortable liquidity position**

The liquidity position of the company stood comfortable with average working capital utilization of 79.74% in last twelve month ended January 2018. However, the operating cycle stood elongated to 112 days in FY17 from 62 days in FY16 owing to increase in inventory level of SSP.

### **Key Rating Weakness**

#### **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](#)

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

[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 September 2004, MBAPL was taken over by Bhilwara based Ostwal Group pending approval from BIFR and operations of MBAPL were turned around since January 2005. Further, in September 2016, it came 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.

<b>Brief Financials (Rs. Crore)</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>
Total Operating Income	64.70	81.71
PBILDT	12.12	21.38
PAT	9.21	11.73
Overall gearing (times)	0.27	0.43
Interest coverage (times)	4.29	4.18

(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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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-Cash Credit	-	-	-	10.50	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	June, 2023	21.81	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 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-Cash Credit	LT	10.50	CARE BBB; Stable	-	-	1)CARE BBB; Stable (14-Mar-17) 2)CARE BBB (10-Oct-16)	1)CARE BBB (29-Dec-15)
2.	Fund-based - LT-Term Loan	LT	21.81	CARE BBB; Stable	-	-	1)CARE BBB; Stable (14-Mar-17) 2)CARE BBB (10-Oct-16)	-

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CIN-L67190MH1993PLC07169