Rama Phosphates Limited

January 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Cash Credit / Proposed facility)	55.00 (Enhanced from Rs.50.50 crore)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities (Letter of Credit / Bank Guarantees)	22.00	**CARE A3 (A Three)**	Reaffirmed
Long-term Bank Facilities (Term Loan)	0.00	-	Withdrawn
Total Facilities	**77.00 (Rupees Seventy Seven Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rama Phosphates Limited continues to derive strength from experience of the promoters in Single Super Phosphate (SSP) segment of fertilizer industry, diversified product portfolio and established brand image with strong distribution network. The ratings also take into account moderate scale of operation, comfortable capital structure as on March 31, 2018 albeit capex plans in medium term and adequate debt coverage indicators during FY18 (refers to period April 01 to March 31).

The rating strengths are, however, tempered by its working capital intensive operations owing to dependence of subsidy from government, low profitability due to subdued performance of soya oil division, susceptibility of profitability to volatility in raw-material prices & foreign exchange fluctuations. Additionally, regulated nature of fertilizer industry and dependence of operation on the vagaries of monsoon also constrain the ratings.

The company's ability to improve its scale of operations, profitability and efficiently manage its working capital while sustaining the capital structure would be the key rating sensitivities. Any adverse change in government regulations and any major debt-funded capex plans would also be a key credit monitorable.

CARE has withdrawn the outstanding ratings of CARE BBB-; Stable (Triple B Minus; Outlook: Stable) assigned to the term loan of Rama Phosphates Limited with immediate effect. The above action has been taken at the receipt of 'no dues' certificate from the bank that has extended the facility rated by CARE.

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoter

The company is promoted by Mr H. D. Ramsinghani and family possessing an experience of more than three decades in manufacturing of phosphate based fertilizers and soya oil. The products of the company are marketed in various states across the country under brand names viz. 'Girnar' and 'Suryaphool'.

Diversified product portfolio in phosphate fertilizer with strong distribution network

The company has diversified product range of phosphate fertilizers consisting of Single Super Sulphate (SSP), mixed fertilizers namely nitrogen-potassium-phosphate (NPK), and micronutrients such as magnesium sulphate. The company has started manufacturing of Magnesium Sulphate and has recently launched product under fertilizer division known as Zincated Boronated Single Super Phosphate. The company also manufactures sulphuric acid and oleum at Indore and Pune plant to meet their requirements and thus reducing dependence on purchases. The company's continues to derive strength from its existing marketing network consisting of around 1,200 distributors across various states.

Moderate scale of operations with diversified customers

The scale of operations of the company remained at moderate level at around Rs. 370 – Rs. 400 crore in last three-years ending FY18. The company has, however, posted total revenue of Rs.297.74 crore during H1 FY19. Furthermore, the company's client profile is fairly diversified with top-10 customers forming only 15% of total operating income during FY18 as compared to 17% during FY17 and thus reducing dependence on a single client.

Comfortable capital structure and adequate debt coverage indicators

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

The capital structure of the company remained comfortable with low reliance on external debt resulting in below unity overall gearing ratio. Further, with stable profitability and low interest cost debt coverage indicators remained at moderate level. The capital structure is expected to remain comfortable albeit partially debt-funded capex plans in medium term.

Key Rating Weaknesses

Low profitability

Owing to negligible margins realized in the soya oil division at operating level, the blended PBILDT margin of the company remained low in the range of 5% – 6% in last two-years ending FY18. Meanwhile, the blended PBILDT margin have improved to around 7% during H1 FY19. However, owing to low fixed costs, net profitability remained in the range of 1.5% - 2% during the aforesaid period.

Regulated nature of Industry

The fertilizer industry in India is highly regulated in nature with intervention of the Government of India in fixation and release of the subsidy amount. Thus, various government policies and subsidy fixation have an impact on the prospects of the industry players. The government has also implemented Direct Benefit Transfer (DBT) for fertiliser subsidies across the country from January 2018 onwards, which has improved the timeline of subsidy payable to the company.

Exposure to volatility in raw material prices and foreign exchange rates

The company imports a large portion of its raw material (rock phosphate) from foreign market, the prices of which are volatile due to its linkage with international prices. The company hedges around 25% of import for forex fluctuation through forward contract arrangement with the rest exposed to forex fluctuation risk.

Dependence of operation on the vagaries of monsoon

Both the oil and fertilizer business are related to agriculture and are dependent on monsoon. The erratic behaviour of rainfall could affect the prospects of both the divisions.

Liquidity

Working capital intensive nature of operations

Prolonged time required for collection of subsidy from the government resulted in lengthy collection period translating into a stretched operating cycle for the company although the collection has improved recently. Therefore the gross current asset days remained high at over 200 days during last three-years ending FY18. However, the entity gets sufficient credit period from its suppliers resulting in moderate working capital utilisation providing sufficient liquidity backup to the company. Furthermore, the current ratio of the company stood at 1.65 times at the end of FY18 signifying comfortable liquidity position of the company.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Rating
CARE's default recognition policy
Criteria for Short Term Instruments
Financial ratios - Non Financial Sector
Rating Methodology - Manufacturing Companies
Rating Methodology - Fertilizer Companies

About the Company

Rama Phosphates Limited was incorporated on September 03, 1984 by Mr D. J. Ramsinghani and family to manufacture phosphate-based fertilizers. Subsequently, the company also ventured into manufacturing of soya oil. Currently, the company has three manufacturing facilities based in Pune (Maharashtra), Indore (Madhya Pradesh) and Udaipur (Rajasthan). The company also undertakes manufacturing and trading activities in industrial chemicals viz. Sulphuric Acid and Magnesium Sulphate.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	385.52	376.64
PBILDT	24.53	19.30
PAT	8.50	5.39
Overall gearing (times)	0.51	0.50
Interest coverage (times)	2.80	2.33

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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About CARE Ratings:

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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-Cash Credit	-	-	-	50.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	21.51	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	0.49	CARE A3
Fund-based - LT-Proposed fund based limits	-	-	-	5.00	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 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	50.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Nov-17)	-	-
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (29-Nov-17)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	21.51	CARE A3	-	1)CARE A3 (29-Nov-17)	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.49	CARE A3	-	1)CARE A3 (29-Nov-17)	-	-
5.	Fund-based - LT-Proposed fund based limits	LT	5.00	CARE BBB-; Stable	-	-	-	-

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