Rama Phosphates Limited

December 25, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	55.00	**CARE BBB Stable (Triple B; Outlook: Stable)**	Revised from CARE BBB-; Stable [Triple B Minus; Outlook: Stable]
Short-term Bank Facilities	22.00	**CARE A3+ (A Three Plus)**	Revised from CARE A3 [A Three]
Total Facilities	**77.00 (Rupees Seventy Seven Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to bank facilities of Rama Phosphate Limited factors in the sustained improvement in its overall gearing (improved to 0.22x as on March 31, 2019) position on back of significant improvement witnessed in accretion to reserves on back of improvement in its Total Operating Income during FY19. The TOI improved on back of improved sales realization in chemical segment (Sulphuric Acid) and elevation in revenue from Soya Segment. Although, CARE believes that the growth witnessed in FY19 may not be repeated going forward, however, the improvement in leverage indicators is expected to sustain in medium term owing to absence of any debt funded capex plans.

The ratings further derive comfort from the sharp reduction in the working capital cycle in FY19 on the back of faster collection of subsidy receivables after the implementation of Direct Benefit Transfer (DBT) for fertilizer companies by the Government of India. Lower working capital requirement coupled with increase in cash flow from operations led to lower dependence on debt resulting in improved gearing as on March 31, 2019. Further, CARE believes, the operating profit in soya segment are expected to be remain more stable given the fact that RMPL setup the soya crude oil refining capacity and same would be supported by energy from waste heat recovery via its chemical division.

The ratings continue 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 rating strengths are, however, tempered by its relatively low operating profit margin, 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.

Rating Sensitivities

Positive Factors

- Total operating income of more than Rs.1,200 crore on a sustained basis
- Improvement in PBILDT margin of more than 12% on a sustained basis

Negative Factors

- Increase in overall gearing of more than 0.50x on sustained basis
- Decline in interest coverage below 4.0x on a sustained basis
- Any predominantly debt funded capex adversely affecting Total Debt / PBILDT beyond 1.5x on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter

RPL was promoted by Mr Daulat Jaisingh Ramsinghani and his family. He has experience of more than five-decades in the fertilizer industry. Mr H. D. Ramsinghani, currently the Chairman and Managing Director, has overall experience of more than three decades in the field of textile, petrochemicals and fertilizers. He is assisted by other qualified professional for the day-to-day management of the company.

Diversified product portfolio comprising phosphate fertilizers, sulphuric acid and soya based products

RPL has diversified product range of phosphate fertilizers consisting of Single Super Sulphate (SSP), mixed fertilizers namely nitrogen-potassium-phosphate (NPK), Zincated and Boronated Single Super Phosphate and micronutrients such as magnesium sulphate. The products of RPL are marketed in various states across the country under brand names viz. 'Girnar' and 'Suryaphool'. It also manufactures sulphuric acid, a key raw material used in manufacturing SSP at its plants in Indore and

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

Pune, partly to meet its own requirements and also to sell in the market. In FY19, sharp increase in the price of sulphuric acid led to increased quantities sold in the outside market by RPL thereby leading to an increase in revenue from this segment. RPL is also engaged in the manufacture of soya products such as soya oil, de-oiled cake etc. Revenue from the soya segment increased from Rs. 79.40 crore in FY18 to Rs. 205.85 crore in FY19.

Considerable presence of RPL in the SSP segment with strong distribution network
RPL has well established marketing network consisting of around 1,525 sales distributors across the states of Maharashtra, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Uttar Pradesh and Haryana who in turn supply to more than 12,500 dealers across the country. RPL has a strong brand recognition in these markers which translates into a healthy market share for SSP in these states. The market share of RPL in the SSP segment across various states is given below:

State	Madhya Pradesh	Maharashtra	Rajasthan	Gujarat	Karnataka	Uttar Pradesh	Haryana
Market Share	17%	14%	13%	8%	20%	6%	11%

Significant growth in total operating income in FY19 although, the same has reduced in H1FY20 on the back of lower fertilizer sales
The total operating income of RPL registered a sharp jump of 61% reaching Rs.607.31 crore in FY19 from Rs.376.64 crore during FY18. This was primarily due to 159% growth in soya sales and 80% growth in sale of sulpuric acid over the same period. However, during H1FY20, TOI of the company registered a de-growth in TOI of 21% on a yoy basis on account of lower fertilizer sales. Excessive and erratic rainfall impacted fertilizer usage by the farmers which led to lower sales for RPL. Nevertheless, CARE expects fertilizer sales to pick up in the second half of the year to cater to the Rabi crop. Further, soya season starts from October and lasts till March, thus, revenue from sale of soya oil and de-oiled cake is likely to boost RPL’s sales in H2FY20.

Comfortable capital structure and adequate debt coverage indicators
RPL’s capital structure continues to remain comfortable with the overall gearing ratio of 0.18 times as on March 31, 2019 as compared to 0.50 times as on March 31, 2018. This further reduced to 0.06 times as on September 30, 2019. CARE believes that in the absence of debt funded capex going forward, the gearing is likely to remain comfortable with debt comprising of working capital borrowings. Significant expansion in operations led to a higher PBILDT, in absolute terms in FY19 which led to substantial improvement in the interest coverage of RPL from 2.33 times during FY18 to 5.20 times during FY19. Other debt coverage ratios also improved as on March 31, 2019 on account of the same reason.

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% – 7% in last two-years ending FY19. Meanwhile, the blended PBILDT margin have declined to around 5.18% during H1 FY20 owing to production disruptions in the sulphuric acid plant and lower margins in the fertilizer segment. However, owing to low fixed costs, net profitability remained in the range of 1.5%-3.5% 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 : Adequate
The average working capital utilisation reduced to 56% during the past 12-months ended October 2019 from 86% in the 12 months ending November 2018. This reduction was on account of reduced collection period which reduced from 153 days in

FY18 to 75 days in FY19. This reduction was on account of a) increased proportion of soya sales which has a lower collection period and b) faster and complete (100% of the subsidy bill instead of 85%) realisation of subsidy from GoI after the implementation of DBT. Further, RPL reported positive cash flow from operations in FY19 thereby providing liquidity support.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Fertilizer
Financial ratios – Non-Financial Sector

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.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	H1FY20 (UA)
Total operating income	376.64	607.31	235.55
PBILDT	19.30	41.15	12.21
PAT	5.39	19.39	8.35
Overall gearing (times)	0.50	0.18	0.06
Interest coverage (times)	2.33	5.20	5.33

A: Audited; UA: Unaudited
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (07-Jan-19)	1)CARE BBB-; Stable (29-Nov-17)	-
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Jan-19)	1)CARE BBB-; Stable (29-Nov-17)	-
3.	Non-fund-based - ST-Letter of credit	ST	21.51	CARE A3+	-	1)CARE A3 (07-Jan-19)	1)CARE A3 (29-Nov-17)	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.49	CARE A3+	-	1)CARE A3 (07-Jan-19)	1)CARE A3 (29-Nov-17)	-
5.	Fund-based - LT-Proposed fund based limits	LT	5.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (07-Jan-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Available

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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