

CARE/JRO/RL/2018-19/2377

Mr Sourabh Gupta
Director
Madhya Bharat Agro Products Limited
5-O-1, Basement, R.C. Vyas Colony,
Bhilwara, Rajasthan

March 31, 2019

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY18 (A) and H1FY19 (UA), our Rating Committee has reviewed the following ratings.

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	29.94 (reduced from Rs.32.31 crore)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total	29.94 (Rupees Twenty- Nine Crore and Ninety Four Lakh only)		

2. Refer Annexure 1 for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from at the earliest, we will proceed on the basis that you have no any comments to offer.

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

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4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,
Yours faithfully,


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Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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 Rated Facilities

1. Long-term facilities

1.A. Rupee term loans

Sr. No	Lender	Rated Amount (Rs. Crore)	Remarks	Debt Repayment Terms
1.	HDFC Bank Limited	19.44	Outstanding as on March 28, 2019	Repayable in 24 quarterly installments of Rs.1.25 crore starting from June, 2017
	Total Facility 1	19.44		

2. Fund Based Limits

Sr. No.	Name of Bank	Fund Based Limits		
		Cash Credit	Remarks	Total fund-based limits
1	HDFC Bank Limited	10.50	-	10.50
	TOTAL	10.50		10.50

Total long-term facilities Rs.29.94

**Annexure 2
Press Release**

Ratings

Facilities	Amount (Rs. crore)	Ratings ²	Remarks
Long term Bank Facilities	29.94 (reduced from Rs.32.31 crore)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
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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 and its financial risk profile marked by diversified revenue stream, healthy profitability margins, comfortable solvency position and moderate liquidity position. The rating, further, continues to derive 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 vulnerability of the profitability margins to fluctuation in the raw material prices and foreign exchange rate and challenges of operating in a highly regulated fertilizer and chemical industry.

The ability of MBAPL to increase its scale of operations while improving/maintaining profitability margins, efficient management of working capital and changes in government policy with respect to SSP shall be the key rating sensitivities.

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Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with strong group support and strong financial risk profile

Ostwal 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 fertilizer 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 concern includes Krishana Phoschem Limited (KPL) and Ostwal Phoschem (India) Limited (OPL). The group companies are getting benefits in terms of experienced management with strong financial support and their established relationship. OPL has 40.88% stake in KPL and 32.88% stake in MBAPL as on March 31, 2018.

Marketing arrangement of its products

Till March 31, 2018, Ostwal group markets fertilizers through Shriram Fertilizers (SFS) a unit of DCM Shriram Limited. However, due to change in policy of subsidy claim where manufacturer will get subsidy instead of marketing company as well as discontinue of use of brand name of marketing company and hence, it discontinue its agreement with SFS. From April 01, 2018, It is marketing its fertilizer products under the own brand name of "ANNADATA" in the 10 states of India. It has appointed a network of 378 wholesalers (which includes SFS also) who subsequently supply to more than 9000 dealers. Further, it sales 50% to distributors and 50% to government owned co-operative societies. Further, the company is marketing chemicals in Gujarat state and mainly selling to various traders as well as manufacturing companies.

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.

Diversified revenue stream with continuous increase in scale of operations and healthy profitability margins

Total Operating Income (TOI) of the company has witnessed continuous growth from last three financial years ended FY18 and grew at a Compounded Annual Growth Rate (CAGR) of 17.90%. During FY18, TOI of MBAPL has grown by 10.13% over FY17 and stood at Rs.89.94 crore mainly on account of improvement in sales volume in chemical business.

The profitability of the company has declined although stood healthy with PBILDT and PAT margin of 22.85% and 5.69% respectively in FY18 as against 26.13% and 14.36% respectively in FY17.

Comfortable solvency position

The capital structure of the company stood comfortable with an overall gearing of 0.44 times as on March 31, 2018. Further, the debt service coverage indicators of the company stood comfortable with total debt to GCA of 2.58 times as on March 31, 2018, increased from 1.92 times as on March 31, 2017 owing to increase in total debt level and lower GCA level. Interest coverage stood at 3.95 times during FY18 as against 4.17 times during FY17 due to higher interest expenses and lower PBILDT level.

Moderate liquidity position

The liquidity position of MBAPL remained moderate with average working capital utilisation of 77.86% for the last 11 months ended February 28, 2019. Further, the liquidity ratios of the company stood moderate with current ratio stood at 1.61 times as on March 31, 2018 and quick ratio at 1.01 times as on March 31, 2018. The working capital cycle of the company stood elongated at 123 days in FY18, improved from 111 days in FY17 owing to increase in inventory level. Further it has cash and bank balance of Rs.0.02 crore as on March 31, 2018.

Key Rating Weakness

Higher volatility in the prices of rock phosphate and higher import dependency due to low indigenous reserves

Rock Phosphate being one of the important raw material for manufacturing phosphatic fertilizers including SSP, is not presently available in large quantity in India and that too portion of high grade rock is limited. India majorly imports rock phosphates from countries like Egypt, Bangladesh, Morocco, US, Middle East and China. Due to the limitation of source of rock phosphate and availability issue, the prices of rock phosphate has witnessed fluctuating trend, also rising trend in the price of rock phosphate in the international market, the availability of rock phosphate for manufacturing of SSP has been affected.

Highly regulated fertilizer and chemical industry

Fertilizer industry is characterized by government control on prices and frequent changes in policies. 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. DBT in fertilizer is meant to transfer subsidies to manufacturers upon authentication of purchase by farmers which can help restricting diversion, prevent leakages, and bring about greater transparency, accountability and efficiency in the system. The only relief for the manufacturers is that the subsidy for the raw material phosphorus (P) has increased by 26.7% for FY19. Nutrient based subsidies for nitrogen (N) and potash (K) have been reduced by 0.5% and 10.4% respectively whereas subsidy for sulphur (S) has been increased by 20.5% for FY19.

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 - Fertilizer

Financial ratios – Non-Financial Sector

Background of 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.

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	81.67	89.94
PBILDT	21.34	20.55
PAT	11.73	5.11
Overall gearing (times)	0.43	0.44
Interest coverage (times)	4.17	3.95

A: Audited

Status of non-cooperation with previous CRA: Nil

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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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	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	10.50	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	June – 2023	19.44	CARE BBB; Stable

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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-Term Loan	LT	-	-	1)CARE BBB; Stable (03-Apr-18)	-	1)CARE BBB; Stable (14-Mar-17) 2)CARE BBB (10-Oct-16)	1)CARE BBB (29-Dec-15)
2.	Fund-based - LT-Cash Credit	LT	10.50.	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-18)	-	1)CARE BBB; Stable (14-Mar-17) 2)CARE BBB (10-Oct-16)	1)CARE BBB (29-Dec-15)
3.	Fund-based - LT-Term Loan	LT	19.44	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-18)	-	1)CARE BBB; Stable (14-Mar-17) 2)CARE BBB (10-Oct-16)	-

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