

No. CARE/JRO/RL/2019-20/2226

**Mr Sourabh Gupta**

Director

**Madhya Bharat Agro Products Limited**

5-O-1, Basement, R.C. Vyas Colony,

Bhilwara, Rajasthan

March 27, 2020

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your company for FY19 audited and 9MFY20 provisional result, our Rating Committee has reviewed the following ratings:

| Facilities                | Amount<br>(Rs. crore)                                                         | Ratings <sup>1</sup>                                          | Rating Action     |
|---------------------------|-------------------------------------------------------------------------------|---------------------------------------------------------------|-------------------|
| Long term Bank Facilities | 27.44                                                                         | <b>CARE BBB; Stable</b><br><b>(Triple B; Outlook: Stable)</b> | <b>Reaffirmed</b> |
| <b>Total facilities</b>   | <b>27.44</b><br><b>(Rs. Twenty Seven crore and<br/>forty four lakhs only)</b> |                                                               |                   |

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

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

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case, if we do not hear from you shortly, we will proceed on the basis that you have no any comments to offer.


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. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
9. 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.

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Thanking you,

Yours faithfully,



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Encl.: As above

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CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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**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     | 16.94*                   | -       | Repayable in 24 quarterly EMI of Rs.1.25 crore starting from June, 2017 |
|         | <b>Total Facility</b> | <b>16.94</b>             |         |                                                                         |

\* Outstanding as on March 18, 2020

**2. Long term Facilities**

| Sr. No. | Name of Bank      | Nature of Facility                    | Amount (Rs. Crore) |
|---------|-------------------|---------------------------------------|--------------------|
| 1       | HDFC Bank Limited | Sublimit- Letter of credit-Rs.5 crore | 10.50              |
|         | <b>TOTAL</b>      |                                       | <b>10.50</b>       |

**Total long-term facilities as at Rs.10.50 crore**

**Total Facilities as at Rs.27.44 crore.**

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**Annexure - 2  
Press Release**

**Rating**

| <b>Facilities</b>         | <b>Amount<br/>(Rs. crore)</b>                                           | <b>Rating<sup>2</sup></b>                               | <b>Rating Action</b> |
|---------------------------|-------------------------------------------------------------------------|---------------------------------------------------------|----------------------|
| Long term Bank Facilities | 27.44                                                                   | <b>CARE BBB; Stable<br/>(Triple B; Outlook: Stable)</b> | <b>Reaffirmed</b>    |
| <b>Total facilities</b>   | <b>27.44<br/>(Rs. Twenty Seven crore and<br/>forty four lakhs only)</b> |                                                         |                      |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of Madhya Baharat Agro Products Limited (MBAPL) continue to derive comfort from the wide experience of the management in the fertilizer industry with strong group presence, established marketing network, its integrated plant for manufacturing of fertilizer and chemical products and benefit of arrangement for long-term supply of rock phosphate. The rating, further, continues to derive strength from its growing scale of operations, healthy profitability margins, comfortable solvency position and adequate liquidity position.

The rating, however, continues to remain constrained on account of vulnerability of profitability margins to fluctuations in the raw material prices and challenges of operating in a highly regulated fertilizer and chemical industry. The rating, further constrained on account of project implementation risk associated with its large size debt funded expansion project.

**Rating Sensitivities**

*Positive Factors*

- Sustained increase in scale of operations with Total Operating Income (TOI) more than Rs.175 crore through realization of benefit from its expansion project while maintaining prevailing PBILDT margins on sustained basis.
- Improvement in liquidity position with operating cycle less than 80 days.

*Negative Factors*

- Deterioration in overall gearing above 1 times owing to any major debt funded CAPEX.
- Decline in PBILDT margin less than 15% on sustained basis.
- Any delay or cost overrun in its ongoing expansion project resulting into deterioration in leverage and liquidity position.

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<sup>2</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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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 of the group***

Ostwal group is promoted by Mr. Mahendra Kumar Ostwal, Chairman and Managing Director of the 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, rated CARE BBB; Positive) and Ostwal Phoschem (India) Limited (OPL, rated CARE BBB; Stable). The group companies are benefited in terms of experienced management with strong financial support and their established relationship with dealers and distributors. OPL has 45.17% stake in KPL and 37.71% stake in MBAPL as on March 31, 2019.

#### ***Marketing arrangement of its products***

Till March 31, 2018, the Ostwal group was marketing its 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 discontinuation of use of brand name of marketing company, it discontinued its agreement with SFS. From April 01, 2018, the group is marketing its fertilizer products under the own brand name of "ANNADATA" in the states of Madhya Pradesh, Gujarat, Maharashtra, Rajasthan, Punjab, Haryana, Odisha, Himachal Pradesh, Uttar Pradesh and Uttarakhand. The group has appointed a network of 1000 distributors (which include SFS also) who in turn supply to more than 9000 dealers. Further, it sales fertilizer to government owned co-operative societies as well. Furthermore, the company is marketing chemicals and mainly selling to various traders as well as manufacturing companies.

#### ***Arrangement for long-term supply of 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) with Madhya Pradesh State Mining Corporation Limited MPSMCL for supply of 93000 MTPA mined low grade rock phosphate ore from its Tigora and Mardeora mines, located near its plant, for a period of 20 years from April 30, 2009. Owing to assured supply of raw material, MBAPL gets the benefit in terms of availability of raw material for its BRP plant at lower transportation cost translating into better operating margins for the company.

#### ***Growing scale of operations with healthy profitability margin***

TOI of the company has witnessed continuous growth in last three financial years ended FY19 and during FY19, TOI of MBAPL has grown by 29.33% over FY18 and stood at Rs.116.33 crore mainly on

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account of higher sales of SSP, GSSP and Sulphuric Acid. During FY19, it has generated 79.32% (75.54% in FY18) of TOI from sales of SSP and 15.02% from sales of SA (15.87% in FY18).

The profitability of the company stood healthy with PBILDT and PAT margin of 25.59% and 10.42% respectively in FY19 as against 22.85% and 5.69% respectively in FY18. During FY19, PBILDT margin of the company has improved by around 274 bps over FY18 mainly on account of lower cost of material consumed. In line with improvement in PBILDT margin, PAT margin of the company has also improved by 474 bps over FY18 mainly on account of lower interest and finance cost which offset to an extent on account higher depreciation charges owing to completion of debt funded project in FY18.

### ***Comfortable solvency position***

The capital structure of the company stood comfortable with an overall gearing of 0.29 times as on March 31, 2019, improved from 0.44 times as on March 31, 2018 on account of decline in total debt as well as accretion profit to reserve. Further, the debt service coverage indicators of the company stood comfortable with total debt to GCA of 1.17 times as on March 31, 2019, improved from 2.58 times as on March 31, 2018 owing to decline in total debt level as well as increase in GCA level. Interest coverage stood comfortable at 8.29 times during FY19 as against 3.95 times during FY18 due to higher PBILDT level and lower interest expenses.

### **Key Rating Weakness**

#### ***Vulnerability of profitability margins to fluctuation in the prices of rock phosphate***

Rock phosphate is a scarce material in India with its reserves concentrated in Rajasthan, Madhya Pradesh and Uttar Pradesh. MBAPL has arrangement with MPSMCL for supply of 93000 MTPA mined low grade rock phosphate ore from its Tigora and Mardeora mines. Some part of raw material taken from its own mines and some part of raw material purchase from domestic players. The company is exposed to raw material price fluctuation risk to an extent its purchase raw material from other suppliers. The profitability of the company is vulnerable to any adverse movement in raw material prices as the company will not be immediately able to pass on the increased price to its customers due its elongated raw material inventory holding period. Therefore, any adverse movement in prices of raw material affects the profitability margin of the company.

#### ***Project implementation risk***

MBAPL has undertaken project for capacity expansion, backward integration and product diversification in last three financial years ended FY19. During FY19, it undertook a new project for manufacturing of Triple Super Phosphate (TSP) with backward integration of BRP, SA and SSP. It has envisaged total cost of the project of Rs.92.62 crore (including margin money of Rs.11.10 crore) to be funded through internal accruals of Rs.32.62 crore and term loan of Rs.60.00 crore. Till January 2020, it

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has incurred total cost of Rs.25.57 towards the project funded by internal accruals. The company has planned to complete the project by end of September 2020. It has already achieved financial closure as company has received sanction for term loan of Rs.60 crore with moratorium period of 12 months and repayment of the said term loan would commence from March 2021.

### ***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. For FY20, the government has revised the nutrient based subsidy rate only for sulphur by increasing it by 31.9% while keeping the rates for nitrogen, phosphorus and potassium unchanged.

### **Liquidity: Adequate**

The liquidity position of the company stood adequate marked by healthy cash accruals available for debt repayment obligations. Average utilisation of maximum fund based working capital limits stood around 65.01% during past 12 months ended December 2019. Furthermore, it has generated cash flow from operating activities of Rs.13.97 crore in FY19 as against cash flow from operating activities of Rs.2.09 crore in FY18 owing to lower working capital gap. The liquidity ratio of the company stood comfortable with current ratio at 2.00 times and quick ratio at 1.29 times as on March 31, 2019. However, operating cycle stood elongated at 126 days in FY19 as against 123 days in FY18. The company maintains higher inventory to meet regular orders of distributors due to seasonality associated with its products. The average inventory period stood around 3 to 4 months. Further, the company gives credit period of 15-30 days to its distributor and gets payment from co-operating societies in 2 to 3 months and subsidy from govt. department within one month. It has cash and bank balance of Rs.0.05 crore as on March 31, 2019 but its cash credit limit utilization also remains moderate.

**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](#)

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[Rating Methodology - Fertilizer Companies](#)

[Rating Methodology - Manufacturing Companies](#)

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

### 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 Board of Industrial and Financial Reconstruction (BIFR) and operations of MBAPL were turned around since January 2005. Further, in September 2016, it came out with an Initial Public Offering (IPO) and has listed its shares in NSE SME Platform, further in August 2019 it has shifted into NSE main platform.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total operating income       | 89.94    | 116.33   |
| PBILDIT                      | 20.55    | 29.77    |
| PAT                          | 5.11     | 12.12    |
| Overall gearing (times)      | 0.44     | 0.29     |
| Interest coverage (times)    | 3.95     | 8.29     |

A=Audited

In 9MFY20, the company has registered TOI of Rs.101.83 crore with PBILDIT and PAT margin of 25.57% and 14.37% respectively.

**Status of non-cooperation with previous CRA:** None

**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      | 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   | 16.94                         | 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 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-Term Loan              | LT              | -                              | -                | 1)Withdrawn (04-Apr-19)                   | 1)CARE BBB; Stable (03-Apr-18)            | -                                         | 1)CARE BBB; Stable (14-Mar-17)<br>2)CARE BBB (10-Oct-16) |
| 2.      | Fund-based - LT-Cash Credit            | LT              | 10.50                          | CARE BBB; Stable | 1)CARE BBB; Stable (04-Apr-19)            | 1)CARE BBB; Stable (03-Apr-18)            | -                                         | 1)CARE BBB; Stable (14-Mar-17)<br>2)CARE BBB (10-Oct-16) |
| 3.      | Fund-based - LT-Term Loan              | LT              | 16.94                          | CARE BBB; Stable | 1)CARE BBB; Stable (04-Apr-19)            | 1)CARE BBB; Stable (03-Apr-18)            | -                                         | 1)CARE BBB; Stable (14-Mar-17)<br>2)CARE BBB (10-Oct-16) |

**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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### About CARE Ratings:

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