

**No. CARE/JRO/RL/2019-20/2222**

**Mr Sunil Kothari**

Director

**Krishana Phoschem 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:

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Ratings<sup>1</sup></b>	<b>Rating Action</b>
Long-term/Short-term Bank Facilities	17.00	<b>CARE BBB; Positive/ CARE A3+ (Triple B; Outlook: Positive / A Three Plus)</b>	<b>Reaffirmed</b>
Long term Bank Facilities	10.75	<b>CARE BBB; Positive (Triple B; Outlook: Positive)</b>	<b>Reaffirmed</b>
<b>Total facilities</b>	<b>27.75 (Rs. Twenty Seven crore and seventy five lakh only)</b>		

2. Refer **Annexure 1** for details of rated facilities.

<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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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 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

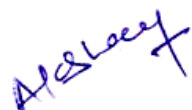
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downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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.

Thanking you,



**[Akshay Khunteta]**

Jr. Analyst

[akshay.khunteta@careratings.com](mailto:akshay.khunteta@careratings.com)



Yours faithfully,

**[Abhishek Kumar Jain]**

Manager

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Encl.: As above

**Disclaimer**

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	3.71*	-	Repayable in 60 equated monthly installments (EMI) of Rs.13.40 lakh starting from November 07, 2017.
2.	HDFC Bank Limited	3.63*#	-	Repayable in 48 equated monthly installments of Rs.12.54 lakh starting from April 07, 2019.
3.	HDFC Bank Limited	3.41*	-	Repayable in 64 variable EMI of starting from September, 2016.
	<b>Total Facility 1</b>	<b>10.75</b>		

*\*Outstanding as on March 17, 2020, #Outstanding of Rs.3.92 crore as on March 17, 2020.*

**Total long-term facilities as at Rs.10.75 crore**

**2. Long /short term Facilities**

Sr. No.	Name of Bank	Nature of Facility	Amount (Rs. Crore)
1	HDFC Bank Limited	Cash credit (Includes sub-limit of Rs.0.50 crore for Bank Guarantee)	17.00
	<b>TOTAL</b>		<b>17.00</b>

**Total Long-term/short-term facilities as at Rs.17.00 crore**

**Total Facilities as at Rs.27.75 crore.**

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**Annexure - 2**  
**Press Release**

**Ratings**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Ratings<sup>2</sup></b>	<b>Rating Action</b>
Long-term/Short-term Bank Facilities	17.00	<b>CARE BBB; Positive/ CARE A3+ (Triple B; Outlook: Positive/ A Three Plus)</b>	<b>Reaffirmed</b>
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*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Krishana Phoschem Limited (KPL) continue to derive comfort from the wide experience of the management in the fertilizer industry with strong group presence, established marketing network and its integrated plant for manufacturing of fertilizer and chemical products. The ratings, further, continue to derive strength from diversified revenue stream with continuous increase in scale of operations, healthy profitability margins, comfortable solvency position and adequate liquidity position.

The ratings, however, continue to remain constrained on account of vulnerability of profitability margins to fluctuations in the raw material prices and foreign exchange rate, raw material availability risk associated with its BRP unit and challenges of operating in a highly regulated fertilizer and chemical industry.

Rating Sensitivities

*Positive Factors*

- Sustained increase in scale of operations to more than Rs.200 crore.
- Sustained improvement in profitability margin with PBILDT margin more than 25%.
- Improvement in liquidity position with operating cycle less than 75 days.

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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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### *Negative Factors*

- Deterioration in overall gearing above 1 times owing to any large size debt funded capex.
- Decline in PBILDT margin to less than 16% on sustained basis.
- Deterioration in liquidity position with operating cycle more than 150 days.

### **Outlook: Positive**

The outlook of the company remained 'Positive' on account of CARE's expectation of increase in scale of operations as well as profitability margins and improvement in working capital position. The outlook, however, may be revised to 'Stable' in case of lower than expected improvement in scale of operations as well as profitability margin, improvement in liquidity position and deterioration in capital structure owing to any major debt funded capex plans.

### **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 Madhya Bharat Agro Products Limited (MBAPL, rated CARE BBB; Stable) and Ostwal Phoschem (India) Limited (OPL, rated CARE BBB; Stable). The group companies are benefited in terms of experienced management with financial support and their established position in the fertilizer business. 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,

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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.

***Diversified revenue stream with continuous increase in scale of operations***

The scale of operations of KPL as indicated by Total Operating Income (TOI) has witnessed continuous growth and during FY19, TOI has improved by around 59.58% over FY18 owing to ramp up of operations in its chemical division as well as increase in sales in fertilizer segment. During FY19, it has generated 47.62% (53.36% in FY18) of net sales from fertilizer segment whereas 52.38% (46.64% in FY18) of net sales from chemical segment.

***Healthy profitability margins***

The profitability of the company improved y-o-y basis and stood healthy with PBILDT and PAT margin of 22.04% and 9.42% respectively in FY19 as against 20.13% and 3.69% respectively in FY18. During FY19, PBILDT margin of the company has improved by 191 bps over FY18 mainly on account of higher margin in chemical segment which offset to an extent by lower margin in fertilizer segment. In fertilizer segment, margin has declined mainly due to high raw material cost.

***Comfortable solvency position***

The capital structure of the company stood comfortable with an overall gearing of 0.38 times as on March 31, 2019, improved from 0.60 times as on March 31, 2018 owing to decline in total debt level as well as accretion of profit to reserves. However, the capital structure may deteriorate going forward owing to its plan to take debt funded capex. KPL is planning to setup new project Di-Ammonia phosphate (DAP) 1000 TPD, Phosphoric Acid 100% 300TPD & Sulphuric Acid 500 TPD at AKVN Ind. Area, Meghnagar Dist Jhabua (M.P.). It has envisaged to commence project work from FY22.

Further, the debt service coverage indicators of the company stood comfortable with total debt to GCA of 1.24 times as on March 31, 2019, improved from 3.33 times as on March 31, 2018 owing to increase in GCA level and decline in total debt level. Interest

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coverage stood comfortable at 9.89 times during FY19 as against 3.36 times during FY18 due to increase in PBILDT level as well as decline in interest and finance cost.

### **Key Rating Weakness**

#### ***Higher volatility in the prices of rock phosphate and higher import dependency due to low indigenous reserves and Foreign exchange fluctuation risk***

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 meets almost 85% of its rock phosphate requirement through imports, even though the country, according to the Geological Survey of India, has an estimated 250 Million Tonnes (MT) reserves with 150 MT of it is expected to be in the fertilizer grade. India majorly imports rock phosphates from countries like Egypt, Bangladesh, Morocco, US and Middle East. During FY19, it directly imported rock phosphate 25800 MT through high sea sales agreement. However, during FY20, the company has purchased low grade rock phosphate and converted into Beneficiated rock phosphate in its own plant which will reduce the cost of raw material. Furthermore, the profitability is exposed to fluctuation in foreign exchange rate as it does not have any active hedging policy.

#### ***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. It has cash and bank balance of Rs.2.14 crore as on September 30, 2019. Further, it has generated cash flow from operating activities of Rs.19.00 crore in FY19 as against cash flow from operating activities of Rs.24.37 crore

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in FY18 owing to higher working capital changes. The operating cycle of the company stood at 95 days in FY19, improved from 130 days in FY18 owing to lower inventory holding period and lower collection period. The company procures primary raw material through domestic market as well as import from Egypt and maintains higher inventory to meet regular orders of distributors as it is seasonal in nature. The average inventory period stood around 90-150 days. 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. It gets subsidy within one month. Due to it, the company's dependence on working capital limits stood high marked by average utilisation of around 81.12% during past 12 months ended December 2019. The current ratio of the company stood moderate at 1.26 times whereas quick ratio stood below unity at 0.64 times as on March 31, 2019.

**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 Companies](#)

[Rating Methodology - Manufacturing Companies](#)

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

### About the Company

KPL was incorporated in 2004 by Mr. Roop Lal Patel, Mr. Dilip Kumar Gadia and Mrs. Geeta Paliwal. Subsequently, in 2007, the 'Ostwal Group', has acquired the company. KPL is engaged in the manufacturing of fertilizer and chemical. KPL has an installed capacity to manufacture 2 Lakh Metric Tonnes Per Annum (LMPA) of BRP, 1.20 LMPA of SSP, 0.90 LMPA of GSSP, 0.99 LMPA of Sulphuric Acid and 1324 MTPA for Chemical products (Dyes Intermediate) as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	95.87	152.99
PBILDT	19.30	33.72
PAT	3.54	14.41
Overall gearing (times)	0.60	0.38
Interest coverage (times)	3.36	9.89

A=Audited

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In 9MFY20, the company has registered TOI of Rs.138.34 crore with PBILD and PAT margin of 20.29% and 9.54% 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/ST-Cash Credit	-	-	-	17.00	CARE BBB; Positive / CARE A3+
Fund-based - LT-Term Loan	-	-	November – 2021	10.75	CARE BBB; Positive

#### 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/ST-Cash Credit	LT/ST	17.00	CARE BBB; Positive / CARE A3+	1)CARE BBB; Positive / CARE A3+ (03-Apr-19)	1)CARE BBB; Stable / CARE A3 (03-Apr-18)	-	1)CARE BBB; Stable / CARE A3 (14-Mar-17)
2.	Fund-based - LT-Term Loan	LT	10.75	CARE BBB; Positive	1)CARE BBB; Positive (03-Apr-19)	1)CARE BBB; Stable (03-Apr-18)	-	-

**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:

CARE Ratings commenced operations in April 1993 and over 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.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

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