

Press Release

Blue Phosphate Limited

July 27, 2018



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 42.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB-**' (**read as ACUITE BB minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) and has reaffirmed short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 42.00 crore bank facilities of Blue Phosphate Limited (BPL). The outlook is '**Stable**'.

The rating upgrade is driven by the continued improvement in the business risk profile of the company and same is expected to be sustained over the near to medium term. The revenue grew from Rs.22.69 crore in FY2016 to Rs.63.24 crore in FY2018 (Provisional). The revenue growth is supported by improvement in the capacity utilisation and customer orders. The upgrade is also driven by improvement in profitability from operating losses in FY2016 to 7.56 percent in FY2018 (Provisional) resulting in improvement in financial risk profile of the company.

The rating continues to draw comfort from experienced promoters and proximity to raw material sources. The rating also factors the diversified customer base and group/parent company support. However, the aforementioned strengths are partially offset by the limited track record of operations, stretched liquidity position, vulnerability to agro-climatic condition and raw material price alongwith forex rates.

Blue Phosphate Limited (BPL) is an Udaipur-based company incorporated in 2009 and promoted by Mr. Kayum R. Dhanani, Mr. Anil Sethia and Mr. Zafar Ullah Khan. The company is engaged in the manufacture of powdered Single Super Phosphate (SSP) and Granular Single Super Phosphate (GSSP) at Udaipur (Rajasthan). The company commenced production in March, 2015. The company derives around 17 percent of the revenue from exports to Dubai while remaining 83 percent is derived from domestic market wherein it has a network of around 100-200 dealers spread across the country. The company imports around 42 percent of the purchases from middle-eastern countries and remaining 58 percent from domestic supplier.

Key Rating Drivers

Strengths

- Experienced management**

The promoters, Mr. Zafar Ullah Khan and Mr. Kayum R. Dhanani have extensive experience of around three decades in the fertilizer industry. The top management is supported by well qualified and experienced team of second line of management.

- Proximity to raw material sources**

The major raw materials required for SSP fertilizer are rock phosphate and sulphuric acid. BPL is located at Udaipur in close proximity to reputed companies that deal in rock phosphate and sulphuric acid. Rock phosphate is expected to be procured from Rajasthan State Mines and Minerals Limited (RSMML) while sulphuric acid will be sourced from Hindustan Zinc Limited.

- **Diversified customer based and modest order book position**

The company has diversified its customer base as the top 10 customers constituted only 20 percent of total revenue for FY2018 (Provisional) as compared to 70 percent from single customer during FY2016. BPL has an order book position of around Rs.35.00 crore as on date which is expected to be executed within next three to four months.

- **Group/Parent company support**

The group/parent company, Transworld Frutichem Private Limited (TFPL), is an established player in manufacturing and trading of granulated fertilizers. TFPL has provided financial support to BPL by infusion of funds in the form of equity of Rs.4.00 crore (40 percent equity holding) and loans to the tune of Rs.17.58 crore as on 31 March, 2018 (Provisional).

Weaknesses

- **Limited track record of operation**

The commercial operation for powdered single super phosphate (SSP) commenced only on 15 March, 2015 and for granular single super phosphate commenced on July, 2015. The company has reported revenue of Rs. 63.24 crore in FY 2017-18 (Provisional) as against Rs. 52.23 crore in the previous year. However, BPL has healthy growth prospects in SSP industry in India due to policy impetus to stimulate demand and improved subsidy structure.

- **Working capital intensive nature of operations and stretched liquidity position**

The operations of the company continues to remain working capital intensive as same is reflected in high Gross Current Assets (GCA) of 200 days in FY2018 (Provisional) as against 263 days in the previous year. The stretched GCA days are on account of high inventory days at 84 in FY2018 (Provisional) as against 129 days in the previous year and the debtor days are high at 107 days in FY2018 (Provisional) as against 126 days in the previous year. BPL also operates at stretched liquidity position as evidenced from the average cash credit limit utilisation of around 98 percent during the last six months ended on 30 June, 2018 due to working-capital intensive nature of operations.

- **Susceptibility of the profitability to volatility in raw material prices and forex rates**

The raw material prices are highly volatile in nature adversely impacting the profitability margins of the company. Further, the company is exposed to fluctuation in foreign exchange currency risk as it imports around 58 percent of its raw material requirement from Egypt and other middle-eastern countries in the absence of adequate hedging mechanism.

- **Vulnerability to the agro-climatic conditions and changes in regulations**

The countries to which BPL has proposed to export are directly or indirectly dependent on monsoon. Thus, fertilizer sales get negatively impacted in the years when there is drought or deficient rainfall. Further, the fertilizer industry in India is highly regulated. The fertilizer business and its profitability are largely influenced by the Government policies for subsidy and pricing. Phosphatic and Complex Fertilizers were earlier governed under ad-hoc concession scheme of GoI after decontrol in 1992. As per the extant policy the phosphatic fertilizers are subsidized.

- **Regulatory risk**

The fertilizer industry is highly regulated. The fertilizer business and its profitability are largely influenced by the Government policies for subsidy and pricing.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the BPL for arriving at the rating.

Outlook: Stable

Acuité believes that BPL's outlook will remain 'Stable' over the medium term on account of its experienced management in the fertilizer industry. The outlook may be revised to 'Positive' in case the company achieves significant growth in revenue and profitability while effectively managing its liquidity position. The outlook may be revised to 'Negative' in case of a lower-than-expected revenues and profitability margins, or deterioration in its capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	63.24	52.23	22.69
EBITDA	Rs. Cr.	4.78	0.12	-0.24
PAT	Rs. Cr.	1.40	-3.19	-3.06
EBITDA Margin	(%)	7.56	0.23	-1.06
PAT Margin	(%)	2.21	-6.11	-13.48
ROCE	(%)	12.92	-3.72	-4.07
Total Debt/Tangible Net Worth	Times	0.78	1.36	1.21
PBDIT/Interest	Times	1.89	0.05	-0.05
Total Debt/PBDIT	Times	3.17	114.33	-129.31
Gross Current Assets (Days)	Days	200	263	593

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <http://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <http://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Apr-2017	Cash Credit	Long Term	8.00	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
	Term Loan	Long Term	10.50 (reduced from Rs. 12.00 crore)	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
	Letter of Credit	Short Term	15.00 (reduced from Rs. 20.00 crore)	ACUITE A4 (Reaffirmed)
	Proposed Long Term Loan	Long Term	8.50	ACUITE B+ / Stable (Assigned)
04-Dec-2015	Cash Credit	Long Term	8.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	12.00	ACUITE BB- / Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A4 (Assigned)
	Derivative Exposure	Short Term	2.00	ACUITE A4 (Assigned)

Cash Credit is fully interchangeable with Export Packing Credit/Foreign Bills Discounting.

Letter of credit includes sublimit of Rs. 2.00 crore bank guarantee.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.00 (reduced from Rs. 10.50 crore)	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)

Cash credit Limit includes sub limit of export packing credit (EPC) to the extent of Rs. 5.50 crore and foreign bill discounting (FBD) to the extent of Rs. 5.50 crore.

Letter of credit includes sublimit of bank guarantee of Rs. 2.00 crore.

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About Acuité Ratings & Research:

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