

## Press Release

### Blue Phosphate Limited

September 06, 2022



### Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A2   Upgraded
Bank Loan Ratings	30.00	ACUITE BBB+   Stable   Upgraded	-
Total Outstanding Quantum (Rs. Cr)	40.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from 'ACUITE BBB' (read as ACUITE triple B) and also upgraded the short term rating to **ACUITE A2 (read as ACUITE A two)** from ACUITE A3+ (read as ACUITE A three plus) to the Rs.40.00 crore bank facilities of Blue Phosphate Limited (BPL). The outlook is '**Stable**'.

#### Rationale for rating upgrade

The rating upgrade is driven by the consistent improvement in the business risk profile of the group marked by improving scale of operations, and its strong operating efficiency. Benefited by the backward-integration facilities established over the years, which provides it a competitive advantage against imports. The financial risk profile have remained healthy, with gearing below unity and strong debt coverage indicators, because of the consistent increase in the networth, and healthy cash accruals over the years. The strong liquidity position of the group as reflected through comfortable current ratio and unencumbered cash and bank balance also provides reassurance to the rating. The rating also factors in reputed client profile of the group supported by healthy and sustained volume growth in production, coupled with increase in fertilizer prices and increasing demand in the industry, providing revenue visibility over the medium term. These strengths are however, partly offset by the working capital intensity in the operations, regulatory risks, susceptibility of operating performance to volatility in raw material prices.

#### About Company

Blue Phosphate Limited (BPL) was incorporated in 2009. The company manufactures powdered single super phosphate (SSP) and granular single super phosphate (GSSP) and has its manufacturing facility in Udaipur, Rajasthan. It is owned by Mr. Kayum R. Dhanani, Mr. Zafar Ullah Khan and Transworld Furtichem Private Limited (TFPL).

#### About the Group

Transworld Furtichem Private Limited (TFPL) was incorporated in 2004. TFPL is engaged in manufacturer & exporter of compound NPK Granulated Fertilizers, Sulphate of Potash (SOP), specialty Chemicals & Fertilizers with three state of art production facility at Roha

(Maharashtra), Kandla (Gujarat) and Mangalore (Karnataka). The company's trading business is recognised by the government as Three Star Export House.

Blue Deebaj FZCO was established in the year 2008 as a Free Zone Company with Limited Liability under the Jebel Ali Free Zone Authority. The Company largely deals in 'Nitrogen Phosphorus Potash' (NPK) products to customers in the African region, GCC, South East Asia and other Asian countries. The Company has manufacturing and procurement offices in India, Sri Lanka, UAE, Malaysia, Mozambique, Malawi and Zambia. Blue Deebaj FZ Co has its own warehousing facility along with handling and packing facilities in India (Kandla), Beira (Africa), Malaysia and Egypt.

## **Analytical Approach**

### **Extent of Consolidation**

- Full Consolidation

### **Rationale for Consolidation or Parent / Group / Govt. Support**

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of Blue Phosphate Limited (BPL), Transworld Furtichem Private Limited (TFPL) and Blue Deebaj FZCO (BDFZCO). The companies, collectively referred to as the Blue Deebaj group, have significant operational synergies, Cross holding within the group, Corporate Guarantee extended by BD FZCO to TFPL and also the controlling stake in the group is held by the same promoters.

## **Key Rating Drivers**

### **Strengths**

#### **Experienced management along with operational and financial support**

The group is promoted by Dhanani family, who have over five decades of experience in the field of fertilizers, chemicals, packaging and mineral based industries. Their experience and funding support would remain instrumental in aiding the business and the liquidity profile of the group over the medium term. In addition, TFPL operations are supported by Blue Deebaj FZCO (major shareholder in TFPL) owing to operational synergies and financial support by way of corporate guarantees for TFPL's loans.

#### **Strong operating efficiency**

The group has been able to sustain its operating performance especially in the second half of FY 2022, despite the industry witnessing a pressure of the rise in raw material prices. This is benefited by the backward integration facilities, operational efficiencies and raw material sourcing tie-ups undertaken over the past several years. The group reported revenue of Rs.1001.10 crores in FY2022 (prov) as compared to Rs.777.11 crores in the previous year. Further, the group has already achieved Rs. 342.46 Cr. till June 2022 (Provisional). Domestic fertilizer prices remained firm in FY'22 mainly due to high global and domestic fertilizer prices amid supply shortage. Acuité expects the prices to remain elevated owing to the ongoing Russia-Ukraine war, given that Russia is one of the major exporters of potash globally. However, Acuité believes that in an event of a continued increase in the raw material prices, the subsidy rates could be adjusted appropriately or the players will eventually increase the end-user (farmers) prices.

The operating margin rose to 11.78 per cent in FY2022 (prov) from 9.23 per cent in FY2021. The PAT margin of the group also increased to 6.49 per cent in FY2022 (prov) from 2.82 per cent in FY2021. The increase in profitability margins translated into healthy Return on Capital Employed (ROCE) of the group, which stood at 11.51 per cent as on March 31, 2022 (prov) as compared to 6.42 per cent as on March 31, 2021. The growth in profitability margins was primarily on account of high demand, better pricing power and variable cost reduction

through operational efficiencies in production processes. Notwithstanding the significant increase in input prices (mainly rock phosphate has increased significantly to USD284/tonne from USD131/tonne over the 12 months ended June 2022) in the current fiscal, Acuité does not expect any significant deterioration in the group's operating profits as fertilizer prices remain remunerative.

### **Healthy financial risk profile**

The group's financial risk profile is marked by high networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the group improved to Rs.668.82 Cr as on March 31, 2022 (prov) from Rs.607.93 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the group stood comfortable below unity at 0.27 times as on March 31, 2022 (prov) as against 0.38 times as on March 31, 2021, although there was some increase in the debt levels in FY2022 due to the higher working capital requirements towards the end of FY22. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.62 times as on March 31, 2022 (prov) as against 0.65 times as on March 31, 2021. The strong debt protection metrics of the group improved further in FY22 with Interest Coverage Ratio at 6.11 times and Debt Service Coverage Ratio at 4.40 times as on March 31, 2022 (prov). Reason for strong credit metrics is group's shifting reliance on Pre-shipment credit on foreign Currency which is a sublimit of Cash credit, and has subsequently resulted into low financial cost. Also the surge in earnings in FY2022 supported by minimal debt and high accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.47 times as on March 31, 2021. Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term, in absence of any major debt funded capex plans.

### **Weaknesses**

#### **Working capital intensive nature of operation**

The working capital management of the group has improved in FY22, although marked by Gross Current Assets (GCA) of 298 days in 31st March 2022 (prov) as compared to 333 days as on 31st March 2021 as the insurance claim has been received during the year FY22 and with increased efficiencies in inventory management. The inventory period reduced to 129 days in 31st March 2022 (prov) as compared to 169 days in 31st March 2021. However, owing to the seasonal nature (Kharif and rabi) of its business, the group needs to maintain high inventory levels. Moreover, the debtor period stood high at 144 days as on 31st March 2022 (prov) as compared to 126 days as on 31st March 2021. The debtor cycle is high as a certain percent of the price of fertilizers is received as subsidy from the government after raising the bill. The credit terms of the group depends on the crop cycle of the particular region. Acuité believes that the working capital operations of the group will remain at same levels as evident from the high debtor and inventory level over the medium term.

#### **Exposure to regulated nature of the fertilizer industry and volatility in raw material prices**

The fertilizer industry is strategic, but highly controlled, with fertilizer subsidy being an important component of profitability. The phosphatic-fertilizer industry was brought under the NBS regime from April 1, 2010. Under this scheme, the Government of India fixes the subsidy payable on nutrients for the entire fiscal (with an option to review this every six months), while retail prices are market-driven. Manufacturers of phosphatic fertilizers are dependent on imports for their key raw materials such as rock phosphate and phosphoric acid. The regulated nature of the industry and susceptibility of complex fertilizer players to raw material price volatility under the NBS regime continues to be key rating sensitivity factors.

Fertilizer companies are also exposed to subsidy payments from the government, which may get delayed leading to reliance on short-term working capital borrowings.

### **Rating Sensitivities**

- Ramp up in scale of operations while sustaining operating profitability
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- Further elongation of working capital cycle
- Significant increase in subsidy receivables from the government

## Material Covenants

None

## Liquidity Position: Strong

The group's liquidity is strong marked by steady net cash accruals of Rs.86.00 Cr as on March 31, 2022 (prov) as against long term debt repayment of only Rs.4.61 Cr over the same period. The current ratio stood comfortable at 2.25 times as on March 31, 2022 (prov) as compared to 1.82 times as on March 31, 2021. The cash and bank balances of the group stood at Rs.15.58 Cr as on March 31, 2022 as compared to Rs.11.90 Cr as on March 31, 2021. However, the combined fund based limit remained moderately utilized at 85 per cent over the eight months ended June, 2022. Moreover, working capital intensive management of the group is marked by Gross Current Assets (GCA) of 298 days in 31st March 2022 (prov) as compared to 333 days in 31st March 2021. Acuité believes that going forward the group will continue to maintain adequate liquidity position owing to steady accruals backed by improvement in earnings led by high demand.

## Outlook: Stable

Acuité believes that the outlook of the group will remain 'Stable' over the medium term on account of consistent improvement in the financial performance of the group, marked by its improving scale of operations, and improved profitability margins, comfortable capital structure and strong debt coverage indicators on the back of consistent increase in the networth and healthy cash accruals over the years. Conversely, the outlook may be revised in case of decline in revenue or operating margins, deterioration in financial risk profile or further deterioration in its working capital cycle.

## Other Factors affecting Rating

Not Applicable

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1001.10	777.11
PAT	Rs. Cr.	65.01	21.90
PAT Margin	(%)	6.49	2.82
Total Debt/Tangible Net Worth	Times	0.27	0.38
PBDIT/Interest	Times	6.11	3.05

## Key Financials: Standalone

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	102.92	68.51
PAT	Rs. Cr.	10.94	5.33
PAT Margin	(%)	10.63	7.77
Total Debt/Tangible Net Worth	Times	0.70	0.58

**Status of non-cooperation with previous CRA (if applicable)**

Crisil, vide its press release dated February 26, 2022 had reaffirmed the rating of Blue Phosphate Limited to 'CRISIL BB/A4+; ISSUER NOT COOPERATING'.

**Any Other Information**

Not Applicable

**Applicable Criteria**

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

**Note on Complexity Levels of the Rated Instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Nov 2021	Working Capital Term Loan	Long Term	1.83	ACUITE BBB   Stable (Assigned)
	Proposed Bank Facility	Long Term	20.17	ACUITE BBB   Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB   Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Assigned)
08 Sep 2021	Proposed Cash Credit	Long Term	17.00	ACUITE B+ (Withdrawn and Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Withdrawn and Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE B+ (Withdrawn and Issuer not co-operating*)
	Term Loan	Long Term	7.00	ACUITE B+ (Withdrawn and Issuer not co-operating*)
06 Jan 2021	Cash Credit	Long Term	8.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Proposed Cash Credit	Long Term	17.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	7.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
15 Oct 2019	Cash Credit	Long Term	8.00	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	7.00	ACUITE BB- (Issuer not co-operating*)
	Proposed Cash Credit	Long Term	17.00	ACUITE BB- (Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB-   Stable (Upgraded from ACUITE B+   Stable)

27 Jul 2018	Term Loan	Long Term	7.00	ACUITE BB-   Stable (Upgraded from ACUITE B+   Stable)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Reaffirmed)
	Proposed Cash Credit	Long Term	17.00	ACUITE BB-   Stable (Upgraded from ACUITE B+   Stable)
28 Apr 2017	Cash Credit	Long Term	8.00	ACUITE B+   Stable (Downgraded from ACUITE BB-   Stable)
	Term Loan	Long Term	10.50	ACUITE B+   Stable (Downgraded from ACUITE BB-   Stable)
	Letter of Credit	Short Term	15.00	ACUITE A4 (Reaffirmed)
	Proposed Long Term Loan	Short Term	8.50	ACUITE A4 (Reaffirmed)
04 Dec 2015	Cash Credit	Long Term	8.00	ACUITE BB-   Stable (Assigned)
	Term Loan	Long Term	12.00	ACUITE BB-   Stable (Assigned)
		Short		
	Letter of Credit	Term	20.00	ACUITE A4 (Assigned)
	Derivative Exposure	Short Term	2.00	ACUITE A4 (Assigned)



## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB+   Stable   Upgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2   Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	20.56	ACUITE BBB+   Stable   Upgraded
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.44	ACUITE BBB+   Stable   Upgraded

## Contacts

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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