

### Varad Fertilisers Private Limited: Assigned

Name of the Instrument	Amount (Rs Crore)	Rating/Outlook
Cash Credit	17.50	SMERA BB/Stable (Assigned)

SMERA has assigned long-term rating of '**SMERA BB**' (**read as SMERA double B**) to the above mentioned bank facility of Varad Fertilisers Private Limited (VFPL). The outlook is '**Stable**'. The rating derives strength from the experienced management and long track record of operations. The rating also draws support from the well established marketing channels, efficient working capital cycle and diversified customer base. However, the rating is constrained by the moderate financial risk profile and thin profitability margins. The rating also takes into account the vulnerability of the company to regulatory changes and agro climatic risks associated with the fertiliser industry.

VFPL, incorporated in 1991 is headed by Mr. Gopal Mandhani and Mr. Ram Niwas Mandhani, Directors with around three decades of experience in the fertiliser industry. The company has moderate financial risk profile marked by interest coverage ratio (ICR) of 1.56 times in FY2015. The debt service coverage ratio (DSCR) stood at 1.42 times in FY2015.

The company has comfortable liquidity position marked by moderate net cash accruals as on March 31, 2015. The average utilisation of the working capital limit is ~78 per cent for cash credit (for six months ended March, 2016).

Moreover, the operating income has grown at a compounded annual growth rate (CAGR) of 13.43 per cent over the last three years to Rs.93.59 crore ended FY2014-15. VFPL's operations are efficient reflected in the gross current assets (GCA) of 105 days in FY2014-15. The moderate GCA emanates from the high inventory holding days due to the seasonal nature of business operations.

However, the rating is constrained by the thin profitability margins as reflected in the PAT margins of 0.55 per cent for FY2014-2015, 0.83 per cent for FY2013-14 and 0.56 per cent for FY2012-13. The company is vulnerable to regulatory changes and agro climatic risks associated with the fertiliser industry.

#### Rating Sensitivity Factors

- Growth in revenues while improving operating margins
- Deterioration in the financial risk profile
- Deterioration in working capital management
- Debt funded capex

#### Outlook-Stable

SMERA believes that VFPL will continue to benefit over the medium term on account of the extensive experience of its promoters. The outlook may be revised to 'Positive' if the company registers substantial increase in profitability margins supported by healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability margins or significant deterioration in the financial risk profile due to debt-funded capex or working capital borrowings.

**Criteria applied to arrive at the ratings:**

- Manufacturing Entities

**About the Company**

VFPL, incorporated in 1991 is engaged in the manufacture of fertilisers and trading of seeds at its unit at Aurangabad (Maharashtra).

For FY2014-15, the company reported profit after tax (PAT) of Rs.0.51 crore on operating income of Rs.93.59 crore, as compared with net profit of Rs.0.73 crore on operating income of Rs.87.33 crore in FY2013-14.

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