

## Press Release

### VARAD FERTILISERS PRIVATE LIMITED

09 January, 2018

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 17.50 Cr.
<b>Long Term Rating</b>	SMERA BB / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs. 17.50 crore bank facilities of Varad Fertilisers Private Limited. The outlook is '**Stable**'.

Incorporated in 1991, Varad Fertilisers Private Limited (VFPL), a Maharashtra-based company is engaged in the manufacturing of fertilisers and trading of seeds. The company is led by Mr. Vidyaprakash Onkarlal Agrawal, Mr. Ram Niwas Jagannath Mandhani, Mr. Gopal Motilal Mandhani and others. The company has installed capacity of 100 MTP per day of NPK fertilisers and 1500 liters per day of bio fertilisers.

### Key Rating Drivers

#### Strengths

- **Long track record of operations, experienced management**

VFPL incorporated in 1991, manufactures fertilisers and trades in seeds. The company was promoted by Mr. Gopal Mandhani and Mr. Ram Niwas Mandhani who possess over three decades of experience in the aforementioned industry.

- **Moderate scale of revenues**

The revenue declined to Rs. 75.98 crore in FY2017 from Rs. 112.32 crore in FY2016 since operations in the bio division were closed for seven months due to the breakout of a fire in September, 2017. The company registered revenue of Rs.55.93 crore from April to November 2017. The EBITDA margins stood at 3.10 per cent in FY2017 as against 1.99 per cent in FY2016. The margins improved as the company registered better yields on its products in 2017 due to a good monsoon. The company incurred net loss of Rs. 0.01 crore in FY2017. SMERA expects VFPL's scale of operations to improve over the medium term on the back of its ongoing capex and plans to enter into new geographies.

- **Well-established marketing channel**

VFPL manufactures NPK Mix fertilisers under the 'Varad' brand name which are sold to wholesalers in Marathwada, Jalna and other districts of Maharashtra. The company has a dealer network of 60 to reach out to 700 distributors, wholesalers and retailers in Maharashtra.

#### Weaknesses

- **Average financial risk profile**

The financial risk profile is average marked by net worth of Rs. 10.62 crore as on 31 March, 2017 as against Rs. 10.63 crore as on 31 March, 2016. As on 31 March 2017, the networth includes Rs.6.27 crore of unsecured loans from promoters treated as quasi equity. The gearing (debt to equity ratio) stood at 1.63 as on 31 March, 2017 as against 1.42 times as on 31 March, 2016. The total debt of Rs. 17.32 crore as on 31 March, 2017, comprises working capital borrowings of Rs. 17.07 crore. The Interest Coverage Ratio (ICR) stood at 1.18 times in FY2017 as against 1.50 times in FY2016. The net cash accruals to total debt (NCA/TD) stood at

0.02 times in FY2017 as against 0.04 times in FY2016.

• **Working capital intensive operations**

VFPL's operations are working capital intensive. The Gross Current Assets (GCA) rose to 158 days in FY2017 from 107 days in FY2016 on account of increase in inventory days to 94 as against 63 days in FY2016. The debtor days increased to 27 as against 18 in FY2016. The average cash credit utilisation stood at 70 per cent for the six months ended 30 November, 2017.

• **Regulatory risk**

The fertiliser industry is highly regulated with profitability largely dependent on government policies with regard to subsidy and pricing.

**Analytical Approach**

SMERA has considered the standalone business and financial risk profile of VFPL.

**Outlook: Stable**

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

**About the Rated Entity - Key Financials**

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	75.98	112.32	93.59
EBITDA	Rs. Cr.	2.36	2.23	2.55
PAT	Rs. Cr.	-0.01	0.30	0.51
EBITDA Margin	(%)	3.10	1.99	2.73
PAT Margin	(%)	-0.01	0.27	0.55
ROCE	(%)	7.98	8.02	20.55
Total Debt/Tangible Net Worth	Times	1.63	1.42	1.53
PBDIT/Interest	Times	1.18	1.50	1.56
Total Debt/PBDIT	Times	8.21	6.73	5.47
Gross Current Assets (Days)	Days	158	107	105

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

**Note on complexity levels of the rated instrument**

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
22-Aug, 2017	Cash Credit	Long Term	INR 17.5	SMERA BB (Indicative)
02-Jun, 2016	Cash Credit	Long Term	INR 17.5	SMERA BB / Stable (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50	SMERA BB / Stable

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### ABOUT SMERA

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