

Press Release

Varad Fertilisers Private Limited

March 22, 2019

Rating Downgraded & Assigned



Total Bank Facilities Rated*	Rs. 17.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB /Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to „**ACUITE BB-**“ (read as **ACUITE double B minus**) from '**ACUITE BB/Stable**' (read as **ACUITE double B**) to the Rs. 15.00 crore bank facilities of Varad Fertilisers Private Limited (VFPL). The outlook is '**Stable**'.

Acuite has assigned long-term rating of „**ACUITE BB-**“ (read as **ACUITE double B minus**) to the Rs. 2.50 crore bank facilities of VARAD FERTILISERS PRIVATE LIMITED (VFPL). The outlook is '**Stable**'.

The rating downgrade is in view of stretched liquidity and more-than-expected decline in scale of operations and profitability. The operating revenues stood stagnant at Rs.75.83 crore in FY2018 as against Rs.75.98 crore in FY2017. Further, VFPL generated revenues of Rs.60.00 crore (Provisional) for the period April 2018 to February, 2019 and it is expected to be around Rs.75.00 crore by the end of FY2019 (provisional). Further, operating margins had also declined to 2.15 per cent in FY2018 from 3.10 per cent in FY2017. However, the rating is supported by experienced management.

Incorporated in 1991, VFPL is a Maharashtra-based company engaged in the manufacturing of fertilisers and trading of seeds. The company is led by Mr. Sanjaykumar Shivprasad Sarda, 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of VFPL to arrive at the rating.

Key Rating Drivers

Strengths

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

VFPL incorporated in 1991, manufactures fertilisers and trades in seeds. The company was promoted by Mr. Ram Niwas Jagannath Mandhani, Mr. Gopal Motilal Mandhani, Mr. Sanjaykumar Shivprasad Sarda and others who possess over three decades of experience in the agricultural industry.

- **Well-established marketing channel**

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

Weaknesses

- **Stagnant scale of revenues and profitability**

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. However, the company registered revenue of Rs.75.83 crore from FY2018 and Rs.60.00 crore for the period April 2018 to February 2019 (Provisional). This is majorly due to the drought spread across Maharashtra. The operating margins declined to 2.15 per cent in FY2018 from 3.10 per cent in FY2017.

• Average financial risk profile

The financial risk profile is average marked by net worth of Rs.10.91 crore as on 31 March, 2018 as against Rs.10.76 crore as on 31 March, 2017. As on 31 March 2018, the net worth includes Rs.6.41 crore of unsecured loans from promoters treated as quasi equity. The gearing (debt to equity ratio) improved to 0.62 times as on 31 March, 2018 from 1.60 times as on 31 March, 2017. The total debt of Rs.6.74 crore as on 31 March, 2018 comprises working capital borrowings of Rs.6.70 crore and vehicle loans of Rs.0.04 crore. Interest Coverage Ratio (ICR) stood at 1.42 times in FY2018 as against 1.18 times in FY2017. The net cash accruals to total debt (NCA/TD) stood at 0.06 times in FY2018 as against 0.02 times in FY2017.

• Working capital intensive operations

VFPL's operations are working capital intensive. The Gross Current Assets (GCA) stood at 108 days in FY2018 as against 158 days in FY2017, on account of decrease in inventory days to 49 from 94 days in FY2017. The debtor days increased to 55 from 27 in FY2017. The average cash credit utilisation stood at 60 per cent for the six months ended 28 February, 2019.

• Regulatory risk

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

Liquidity Position

VFPL has stretched liquidity marked by moderate net cash accruals. The company generated cash accruals of Rs.0.43 to 0.56 crore during the last three years through 2016-18. The cash accruals of the company are estimated to remain around Rs.0.50 – 0.60 crore during 2019-21, while its repayment obligations are estimated to be around Rs. 0.82 Crore. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 108 in FY 2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the company remains utilized at 60 percent during the last 6 months period ended February, 2019. The company maintains unencumbered cash and bank balances of Rs.0.08 crore as on March 31, 2018. The current ratio of the group stands moderate at 1.43 times as on March 31, 2018. The company is likely to incur capex of Rs.4.12 crore over the medium which is likely to be funded by equity and external borrowing in the ratio of 1:3. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accrual over the medium term.

Outlook: Stable

Acuite 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	75.83	75.98	112.32
EBITDA	Rs. Cr.	1.63	2.36	2.23
PAT	Rs. Cr.	0.14	-0.01	0.30
EBITDA Margin	(%)	2.15	3.10	1.99
PAT Margin	(%)	0.18	-0.01	0.27
ROCE	(%)	6.11	6.74	8.02
Total Debt/Tangible Net Worth	Times	0.62	1.60	1.41
PBDIT/Interest	Times	1.42	1.18	1.50
Total Debt/PBDIT	Times	3.99	8.15	6.71
Gross Current Assets (Days)	Days	108	158	107

Any other information

"Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups"

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.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
09-Jan-2018	Cash Credit	Long Term	17.50	ACUITE BB / Stable (Reaffirmed)
22-Aug-2017	Cash Credit	Long Term	17.50	ACUITE BB (Indicative)
02-Jun-2016	Cash Credit	Long Term	17.50	ACUITE BB / Stable (Assigned)

*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	15.00 (Reduced from Rs.17.50 crore)	ACUITE BB- / Stable (Downgraded from ACUITE BB/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB- / Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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