

Press Release

Vinayaka Agro Fertilizers India Private Limited

June 06, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE B-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to **'ACUITE B+' (read as ACUITE B plus)** from **'ACUITE B-' (read as ACUITE B minus)** on the Rs.15.00 crore bank facilities of Vinayaka Agro Fertilizers India Private Limited (VAPL). The outlook is **'Stable'**.

The rating upgrade reflects improvement in the profitability along with sustained revenues. VAPL has reported profit after tax (PAT) of about Rs.2.50 crore in FY2017 against earlier estimate of Rs.0.11 crore. Also, the profitability is sustained in FY2018 with PAT of Rs.2.40 crore (Provisional) with steady levels of revenues at Rs.28.00 crore in FY2017 and FY2018; the revenues have increase from Rs.4.50 crore in FY2016. The rating upgrade also factors in healthy capital structure though underpinned by modest scale of revenues and working capital intensive operations.

Incorporated in 2010, Vinayaka Agro Fertilizers India Private Limited (VAPL) is a Nellore-based company promoted by Mr. R Ravi Shankar Reddy and Mr. P Harsha Reddy. The company is engaged in manufacturing of single super phosphate (SSP) fertilizer. VAPL's facility is located in Nellore (Andhra Pradesh) with installed capacity of 1.2 lakh tonnes per annum (TPA).

Key Rating Drivers

Strengths

• Experienced management

The Directors, Mr. Ravi Shankar Reddy and Mr. Harsha Reddy are in this line of business for nearly a decade. The promoters are also associated with 'Lakshmi Ganesh Agro Fertilisers Pvt Ltd' (rated by Acuité at 'ACUITE B+/Stable') which is into manufacture of Nitrogen-Phosphorous-Potassium (NPK) based out of Hyderabad. The promoters have business interests in agriculture, infrastructure among others for over two decades. VAPL produces SSP in powdered and granulated form under the brand name 'VFL Super Simha'.

SSP is widely used on all kinds of crops in India, particularly on paddy, sugar cane, tobacco, cotton and chilly. It also helps to treat sulphur deficiency in soils (40 percent of Indian soil is sulphur deficient) as well as further enhancement of yields at the least cost. There has been 12-13 percent increase in the SSP consumption in recent years. In Andhra Pradesh, consumption of SSP is 3.47 lakhs metric tonnes, while the requirement is 4.5 lakh metric tonnes as per FY2017 data. The demand for the product, and stabilisation of the company's operations have supported in healthy growth in revenues from Rs.4.48 crore in FY2016 to about Rs.28.00 crore in FY2017 and FY2018.

To accentuate the growth, VAPL has healthy client base spread across the regions of Guntur, Krishna, West Godavari, Nellore districts in Andhra Pradesh. VAPL has order book position of about Rs.17.00 crore as of April 30, 2018 for manufacture and deliverables in the next four-six months. Further, to penetrate and diversify from the product and revenue concentration, the management plans to invest about Rs.1.00 crore on the capital expenditure (capex) for modifications of the plant for new product production over the near term. Acuité believes that though there is a product concentration in the business risk profile, however the same is mitigated partly with the demand for

SSP in the market, and the product diversification that the management planned for.

• Comfortable financial risk profile

The financial risk profile is marked by moderate gearing and comfortable debt protection metrics. Gearing is healthy at 0.85 times as of March 31, 2018 (Provisional), an improvement from 1.09 times as of March 31, 2017. The net worth is moderate at Rs.15.96 crore as on 31 March, 2018 (Provisional) against Rs.14.29 crore in FY2017, mainly attributed to profit accretions. Its debt protection metrics are comfortable with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 3.41 times and 0.33 times respectively for FY2018 (Provisional). Acuite believes that the financial risk profile is expected to be at similar levels over the medium term, as the company is not envisaging any major debt-funded capex over the medium term.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive as evident from Gross Current Asset (GCA) days of 216 as on March 31, 2018 (Provisional). The working capital is majorly in the form of subsidy receivable from government and receivables of about Rs.7.00 crore each. The company maintains an average inventory of about Rs.2.00 – 3.00 crores at the balance sheet date reflecting about 40 days of inventory to cost of sales, and receivables of about 90 days credit to the dealers and distributors. This lead to high utilisation of its bank lines of Rs.15.00 crore at about 85 percent over six months through March 31, 2018 (provisional). Acuite believes that the operations of the company continue to be working capital intensive due to subsidy element and seasonal nature of operations.

• Regulatory Risk and Vulnerability to the agro-climatic conditions

The fertilizer industry is highly regulated. The fertilizer business and its profitability are largely influenced by the Government policies for subsidy and pricing. Phosphate fertilizers were earlier governed under ad-hoc concession scheme of Government of India after decontrol in 1992. As per the extant policy, the phosphoric fertilizers are subsidised. The variations in the level of rainfall and other climatic factors prove to be a hindrance to the demand of the company.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the VAPL to arrive at this rating.

Outlook: Stable

Acuite believes that VAPL will maintain a stable outlook over the medium term from its promoters' industry experience and demand for the product. The outlook may be revised to 'Positive' in case of significant improvement in revenues, while maintaining its profitability and improving its liquidity. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management due to inordinate delay in receipt of subsidy from the Government.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	27.97	4.48	-
EBITDA	Rs. Cr.	7.06	-1.36	-0.21
PAT	Rs. Cr.	2.50	-4.52	-2.35
EBITDA Margin	(%)	25.25	-30.38	-
PAT Margin	(%)	8.94	-100.91	-
ROCE	(%)	15.26	-24.78	-0.91
Total Debt/Tangible Net Worth	Times	1.09	1.06	0.50
PBDIT/Interest	Times	3.43	-1.13	-0.10
Total Debt/PBDIT	Times	2.16	-9.64	-39.09
Gross Current Assets (Days)	Days	203	1139	-

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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. Crore)	Ratings/Outlook
09-Jun-2017	Cash Credit	Long Term	15.00	ACUITE B- / 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	15.00	ACUITE B+ / Stable (Upgraded from ACUITE B-/Stable)

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About Acuité Ratings & Research:

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