Madhya Bharat Agro Products Limited (MBAPL)

November 10, 2022

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action	Complexity indicators
1.	Long Term Fund Based Bank Facility – Term Loan	58.93 (Increased from 38.42)	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	Reaffirmed	Simple
2.	Long Term Fund Based Bank Facility – Cash Credit	158.00 (Increased from 60.00)	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	Reaffirmed	Simple
3.	Long Term Fund Based Bank Facility – GECL (Working Capital Term Loan)	2.88 (Reduced from 3.56)	IVR A-/Stable Outlook (IVR A Minus with Stable Outlook)	Reaffirmed	Simple
4.	Short Term Non - Fund Based Bank Facility – Letter of Credit	47.00 (Increased from 35.00)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
5.	Short Term Non - Fund Based Bank Facility – Pre Settlement Risk (PSR)	4.50	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
6.	Proposed Long Term Fund Based Facility – Cash Credit	0.00* (Previously rated 2.58)	--	Withdrawn	Simple
7.	Proposed Short Term Non Fund Based Facility – Letter of Credit	2.75	IVR A2+ (IVR A Two Plus)	Assigned	Simple
	Total	**274.06**			

*****Company has not proceeded with the facility as envisaged.*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating reaffirmation/assigned to the bank facilities of Madhya Bharat Agro Products Limited (MBAPL) continues to derive comfort from its experienced management with strong group support, comfortable and stable financial risk profile, improving revenue profile along with healthy & range bound profit margins, strong brand presence & marketing network along with locational advantage and incremental benefit from the completed capex in the projected period. However, the rating strengths are partially offset by working capital intensive nature of operations, exposed to regulatory risk, scale and profitability susceptible to volatility in raw material prices and vagaries of agro-climatic conditions.

Key Rating Sensitivities:

- **Upward Factor**
  - Substantial and sustained improvement in revenue & profitability leading to overall improvement in debt protection metrics.
- **Downward Factor**
  - Any decline in revenue and/or profitability impacting the debt protection metrics or liquidity.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced Management with strong group support

The Ostwal Group of Industries (OGI) is promoted by Mr. Mahendra Kumar Ostwal, Chairman and Managing Director of the Ostwal Group, who has over three decades of experience in the fertilizer industry and is assisted by his sons, Mr. Pankaj Ostwal and Mr. Praveen Ostwal. The group concern includes Ostwal Phoschem (India) Limited (OPIL), Krishana Phoschem Limited (KPL), Madhya Bharat Agro Products Limited (MBAPL), Season International Private Limited (SIPL) and Shree Ganpati Fertilizers Limited (SGFL). The group companies benefit in terms of experienced management with financial support from the parent company and their established position in the fertilizer industry.

Comfortable financial risk profile

The group has a comfortable and stable capital structure over the last three account closing dates backed by scheduled repayment of term debt obligations and accretion of profit to net worth. The overall gearing ratio of the group is at 0.56x as on March 31, 2022 (FY21: 0.28x). The debt protection metrics of the company remained comfortable marked by interest coverage of 14.979x as on March 31, 2022(FY21: 14.91x). Further, debt to equity ratio stood at 0.21x as on March 31, 2022(FY21: 0.17x) and TOL to TNW stood 0.83x at as on March 31, 2022(FY21: 0.53x). The slight decline in FY22 debt protection parameters is backed by the increase in the debt exposures taken by the company to increase its scale of operation and complete the planned CAPEX in MBAPL and KPL.

Increasing revenue profile along with range bound profit Margins

The Group's operating revenue showed steady increase with a CAGR of more than 50% in the last three years ended FY22, total operating income in FY22 increased to INR1062.55 Crore from INR558.83 Crore in FY22 on account of increase in sales price realization with increasing capacity utilization along with the substantial increase in the amount of subsidy received from the government. The company has witnessed substantial improvement in operating income by selling the product under its in house brand “ANNADATA”. The EBIDTA margin of the group also remained range bound within 19%-22% and increased steadily over the last three fiscals ended in FY22 on the back of stability in cost of production & overheads costs of the company, PAT margin increased in FY22 as compared to previous years (FY22: 11.71%, FY21: 11.29%).

Strong Brand Presence & marketing network

The group derives its revenues from three main product streams (Single Super Phosphate, H. Acid, Sulphuric Acid) across 5 states namely Rajasthan, Madhya Pradesh, Chhattisgarh, Gujarat, and Maharashtra. The company initially until March 31, 2018 was marketing its fertilizers through Shriram Fertilizers and Chemicals (SFC) a unit of DCM Shriram Limited, however, due to change in policy from April 01, 2018 of subsidy claim where manufacturer will get subsidy instead of marketing company as well as discontinue of use of brand name of marketing company, it discontinued its agreement with SFC. The company has been marketing its fertilizer products under its own brand name of “ANNADATA” since then and has an in-house marketing team of approximately 50 personnel spread across the country. The company also has a network of approximately 1500 dealers and distributers and 10,000 retail outlets where the company’s products are supplied. Diversified Product Portfolio: the group has diversified its product range of fertilizers with its product portfolio consisting of organic fertilizers along with chemical fertilizers such as single super phosphate (SSP), Benefited Rock Phosphate (BRP), S. Acid, H. Acid, and others.

Location advantage

Location advantage with plants in interior areas to facilitate better access to consumer markets as the manufacturing facilities of Ostwal group are located in interiors of Rajasthan and Madhya Pradesh which ensures good rural coverage in those areas and better connectively and ease of logistics for distribution purpose. The manufacturing plants strategic locations also provide better access to end-user markets, along with lower freight costs against competitors.

Incremental Benefit from the completed capex

The company has set up a manufacturing unit of Triple Super Phosphate (TSP)/ Di Ammonium Phosphate (DAP) / nitrogen, phosphorus, and potassium (NPK) fertilizer with an installed capacity of 1,20,000 MTPA along with units for manufacturing Beneficiated Rock Phosphate (BRP), Phosphoric Acid and Sulphuric Acid, with additional installed capacities of 66,000 MTPA, 19,800 MTPA and 62,700 MTPA respectively. The total capex amounting INR92.14 Crore was funded by Term Loan amounting to INR30.00 Crore and balance from internal accruals. The capex is completed and the manufacturing process has started from October 7th, 2021.The completed capex has reflected top line growth in FY22 financials as compared to previous year, wherein the top line has increased from INR491.49 Crore in FY21 to INR941.04 Crore in FY22 along with the increase in the amount of profitability. Further, incremental benefit from the completed CAPEX in the projected period is the key monitorable factor.

Key Rating Weaknesses

Working capital intensive nature of operations

India is an agricultural country and the fertilizer industry is dependent upon agricultural produce in the country, with any unfavorable climatic changes can impact the overall demand for fertilizers. OGI is not an exception, the product manufactured by the company are highly dependent on onset of monsoon & other climatic condition in the country. Owing to this seasonal nature of its business, the group needs to maintain comfortable inventory levels as reflected by inventory days of 122 and 100 in FY21 and FY22, respectively. However, debtor days are comfortable with the prudent collection process at 48 days and 43 days in fiscal years FY21 and FY22 respectively. However, the overall operating cycle stands moderately comfortable and expected to remain in the projected period as well.

Exposed to regulatory risk

Since OGI group operates in a highly regulated industry, the selling prices of its products are dependent upon the subsidy allocated by the Government of India to various nutrients. The company's operations, thus, remain exposed to any sharp variations in the subsidy amount and delays in receipt of the same, apart from any other regulatory intervention on product prices.

Scale and profitability susceptible to volatility in raw material prices and vagaries of agro-climatic conditions

Prices of key raw materials such as rock phosphate and sulphuric acid have linkages with the global market and exhibit volatility with change in international prices as well as foreign exchange rates. Since OGI needs to maintain adequate inventory due to the seasonal nature of the fertiliser and seeds industry, the stocked inventory is exposed to inventory price risk, given the volatility in raw material prices. Moreover, group's scale of operations and profitability also remain susceptible to agro-climatic conditions in the country since the demand for seeds and fertilisers in India is generally influenced by the monsoons

Analytical Approach :

Consolidated Approach

For arriving at the rating, Infomerics has considered the consolidated financial profiles of OPIL, MBAPL, KPL, SGFL and SIPL, together known as Ostwal Group of Industries (OGI), to arrive at the rating. The consolidation is on account of common management, similar line of business, and significant operational and financial linkages during the year.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Criteria on consolidation of companies

Criteria of Rating Outlook

Liquidity: Adequate

The current ratio of the group remained comfortable at 1.77x as on March 31, 2022 (FY21: 1.87x). The company's cash flow from operation also remains adequate. The company is expected to generate sufficient cash accruals on the back of steady increase in operations as against the scheduled debt repayment. The liquidity of the company expected to remain adequate in the near to medium term. The average fund based working capital utilization of the group during the last twelve months ended September, 2022 remains comfortable at around ~58.58%. The company maintains cash and cash equivalent balance of ~INR21.63 Crore as on March 31, 2022.

About the Company

Madhya Bharat Agro Products (MBAPL)- is as ISO 9001:2015 Certified company which got incorporated in year 1997 as private sector unit manufacturing Single super phosphate with production capacity of 60,000 MTPA, later in 1999 it was converted to public limited company and by 2004 it came in current management of "Ostwal Group of Industries [M/s Ostwal Phoschem (India) Ltd (OPIL) was incorporated as a Private Limited Company in the year 1989 under the name Tedco Granite Private Limited and was subsequently converted into a Public Limited Company in the Year 1997; Ostwal Phoschem (India) Ltd is the holding company of MBAPL which holds 65.29% share in MBAPL]. Madhya Bharat Agro Products got listed on NSE emerging platform in 2018.The registered office and corporate office of the Company is situated at Bhilwara, Rajasthan and two manufacturing units located in Sagar district of Madhya Pradesh state. The company is in the business of manufacturing of fertilizers and other agro chemicals. After completing the CAPEX, the company has an installed capacity to manufacture 180,000 MTPA of Single Super Phosphate, 21,079 MTPA of DAP/NPK and 66,000 MTPA of Beneficiated Rock Phosphate (BRP), 19,800 MTPA of Phosphoric Acid and 62,700 MTPA of Sulphuric Acid.

Financials: Consolidated **(INR. Crore)**

For the year ended/ As On*	31-3-2021 (Audited)	31-3-2022 (Audited)
Total Revenue	558.83	1062.55
EBITDA	106.80	216.18

PAT	63.64	124.81
Total Debt	107.39	300.11
Tangible Net-worth	388.25	536.69
Ratios (%)		
EBITDA Margin (%)	19.11	20.35
PAT Margin (%)	11.29	11.71
Overall Gearing Ratio (x)	0.28	0.56

** Classification as per Infomerics' standards*

Financials: Standalone **(INR. Crore)**

For the year ended/ As On*	31-3-2021 (Audited)	31-3-2022 (Audited)
Total Revenue	185.71	491.49
EBITDA	41.59	106.60
PAT	20.24	57.03
Total Debt	70.32	163.77
Tangible Net-worth	149.36	205.32
Ratios (%)		
EBITDA Margin (%)	22.40	21.69
PAT Margin (%)	10.89	11.60
Overall Gearing Ratio (x)	0.47	0.80

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (April 6, 2022)	Date(s) & Rating(s) assigned in 2021-22 (April 14, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20

1.	Long Term Fund Based Bank Facility – Term Loan	Long Term	58.93	IVR A-/Stable	IVR A-/Stable	IVR BBB+/Stable Outlook	-	-
2.	Long Term Fund Based Bank Facility – Cash Credit	Long Term	158.00	IVR A-/Stable	IVR A-/Stable	IVR BBB+/Stable Outlook	-	-
3.	Long Term Fund Based Bank Facility – GECL (Working Capital Term Loan)	Long Term	2.88	IVR A-/Stable	IVR A-/Stable	IVR BBB+/Stable Outlook	-	-
4.	Short Term Non -Fund Based Bank Facility – Letter of Credit	Short Term	47.00	IVR A2+	IVR A2+	IVR A2	-	-
5.	Short Term Non -Fund Based Bank Facility – Pre Settlement Risk (PSR)	Short Term	4.50	IVR A2+	IVR A2+	IVR A2	-	-
6.	Proposed Long Term Fund Based Facility – Cash Credit	Long Term	0.00	IVR A-/Stable	IVR A-/Stable	IVR BBB+/Stable Outlook	-	-
7.	Proposed Short Term Non Fund Based Facility – LC	Short Term	2.75	IVR A2+	-	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

Annexure 1: Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facility – Term Loan	--	--	Up to April, 2027	58.93	IVR A-/Stable
Long Term Fund Based Bank Facility – Cash Credit	--	--	--	158.00	IVR A-/Stable
Long Term Fund Based Bank Facility – GECL (Working Capital Term Loan)	--	--	Up to April, 2027	2.88	IVR A-/Stable
Short Term Non - Fund Based Bank Facility – Letter of Credit	--	--	--	47.00	IVR A2+
Short Term Non - Fund Based Bank Facility – Pre Settlement Risk (PSR)	--	--	--	4.50	IVR A2+
Proposed Long Term Fund Based Facility – Cash Credit	--	--	--	0.00	IVR A-/Stable
Proposed Short Term Non Fund Based Facility – Letter Of Credit				2.75	IVR A2+

Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Extent of Consolidation
Ostwal Phoschem (India) Limited {OPIL}	*Full**
Madhya Bharat Agro Products Limited (Subsidiary) {MBAPL}	*Full**
Krishana Phoschem Limited (Subsidiary) {KPL}	*Full**
Shri Ganpati Fertlizers Limited (Subsidiary) {SGFL}	*Full**
Seasonal International Private Limited (Associate) {SIPL}	*Up to the extent of share in profit @40%***

**Intercompany transaction has been adjusted as per Infomerics standard.*

***Consolidation is on the basis of Equity Method as per AS 23 (Accounting for Investments in Associates in Consolidated Financial Statements)*

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-MBAPL-nov22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.