

RATING RATIONALE

Varun Fertilizers Pvt Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 8.00 Crores of Varun Fertilizers Pvt Ltd

Particulars

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (September, 2018)	Present
Fund based	8.00	8.00	Long Term	BWR B+ Stable	BWR B+ Stable [Reaffirmation]
Total	8.00	8.00	INR Eight Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION : Long Term Ratings reaffirmed to BWR B+(Stable)

RATING OUTLOOK : Stable

BWR believes that the business risk profile of **Varun Fertilizers Pvt Ltd** will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

The rating continues to draw strength from the established operational track record and healthy relationship with clients, experience of the promoters in the industry, comfortable debt protection metrics and moderate profitability. The rating is constrained by the small scale of operations, weak working capital management, customer concentration risks and exposure to overall industry risks.

KEY RATING DRIVERS

Credit Strengths:

- **Established clientele and experienced management:** Directors of the company, Mr. Ashish Tiwari and Mr. Abhishek Tiwari have a strong educational background and have been in the fertilizer industry for around a decade and have developed healthy relationships with their customers including government agencies as indicated by its sales to MP State Agro Ind. Dev. Corp.Ltd. and MP State Co-Operative Marketing Federation Ltd.
- **Improving Financial Risk Profile:** Gearing and debt protection metrics are moderate with TD/TNW of 1.43 times, DSCR of 1.35 times and ISCR of 2.26 times in FY19. Profitability and liquidity are moderate with NPM, OPM and current ratio of 1.35%, 5.75% and 1.28 times in FY19.



Credit Risks:

- **Small Scale of Operation With Weak Working Capital Management:** The growth in revenue is marginal with net sales of Rs. 40.04 Cr. in FY19 against Rs 35.91 Cr. in FY18 and modest TNW of Rs. 8.25 Cr. in FY19. Company has weak working capital management marked by stretched receivables and payables. GCA forms 74.87% in FY19 vis-a-vis 71.37% in FY18 which is high on account of high trade receivables for a period of more than six months.
- **Geographical concentration:** Customer base is restricted within Madhya Pradesh and Gujarat, however, management is working on the plan of expanding their customer base through tie-ups with another six north-east states.
- **Susceptibility to government regulations and seasonal factors:** Profitability is susceptible to government regulations, seasonal factors and fluctuations in input price. The department of fertilizers fixes the maximum retail price for some fertilizers, which limits manufacturers from passing on increase in raw material costs to customers. However, they are partially compensated by government subsidy which can again affect working capital adversely if disbursement is delayed.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the company to improve its scale of operation, increase profitability and cash accruals, strengthen its overall financial risk profile, manage its working capital and cash flow efficiently to meet the debt obligations would be the key rating sensitivities

Positive: The outlook may be revised to Positive if the company records significantly better-than-expected growth in revenues along with improvement in profitability levels and efficient working capital management, resulting in better debt coverage metrics and liquidity profile

Negative: The outlook may be revised to Negative if the company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position.

LIQUIDITY POSITION: STRETCHED

Current Ratio stood at 1.28x as at FY19. Cash & Cash Equivalents stood negligible at 0.04 crs as at FY19. Net Cash Accruals stood at ₹1.15 crs as at FY19. The working capital requirements are met by working capital facilities which have remained almost fully utilized. The company has Long Term Borrowings in tune of Rs 3.79cr which are unsecured loans from friends & family. Hence, no cash flows have been provided for the same.

COMPANY PROFILE

Varun Fertilizers Pvt. Ltd. (VFPL) was incorporated in 2005 in Indore and manufactures fertilizers such as nitrogen-phosphorus-potassium (NPK) and single super phosphate (SSP) at its plant located at Dewas, M.P. that has capacity of 1 lakh MT and NPK mixture fertilizers with 40 MT capacity. Operations are managed by Mr. Ashish Tiwari and Mr. Abhishek Tiwari who have been in the fertiliser industry for around a decade and also manage other associate entities of Advance Group of Companies.

KEY FINANCIAL INDICATORS (in INR Crs)

As informed by the company's management, the company has earned a sales of in tune of Rs 20.82Crs with an EBITDA of Rs 1.63Crs in 9MFY20.

Key Parameters	Units	FY 19	FY 18
Result Type		Audited	Audited
Total Operating Income	₹ Cr	40.04	35.91
OPBDIT	₹ Cr	2.30	2.08
PAT	₹ Cr	0.54	0.51
Tangible Net Worth	₹ Cr	8.25	7.72
Total Debt/TNW	Times	1.43	1.54
Current Ratio	Times	1.28	1.29

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : None

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : None

RATING HISTORY

Instrument	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	September, 2019	September, 2018	2017
Fund Based	Long Term	8.00	BWR B+ Stable [Reaffirmation]	RNR	BWR B+ Stable	Not Rated

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [Manufacturing Companies](#)

- [Approach To Financial Ratios](#)
- [Infrastructure Sector](#)

Analytical Contacts	Investor and Media Relations
<p>Siddhi Kadakia Primary Analyst Board: 2267456666 Ext: 648 siddhi.k@brickworkratings.com</p> <p>Sushil Kumar Chitkara [Assoc. Director – Ratings] Board: 22 2831 1426/2831 1439 sushilkumar.c@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>

Varun Fertilizers Pvt Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Axis Bank	Cash Credit	8.00	-	8.00
TOTAL					8.00

Total Rupees Eight Crores only.

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