



## Rating Rationale

Varun Fertilizers Pvt Ltd

7 Sep 2018

**Brickwork Ratings assigns the rating BWR B+ for the Bank Loan Facilities of ₹. 8.00 Crores of Varun Fertilizers Pvt Ltd.**

### Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based Cash Credit	8.00	Long Term	<b>BWR B+</b> (Pronounced BWR Single B Plus ) <b>Outlook : Stable</b>
<b>Total</b>	<b>8.00</b>	<b>INR Eight Crore Only</b>	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

# Annexure-I provides details of bank facilities

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of Varun Fertilizers Pvt. Ltd. ('VFPL' or the Company) upto FY17, provisional financial statements for FY18, publicly available information and information/clarifications provided by the management.

The rating draws 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.

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.

### Analytical approach.

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).

### Key Rating drivers

- **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 relationship 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.

- **Comfortable debt protection metrics**

Debt protection metrics is comfortable with an ISCR of 2.05 times in FY17 and 2.51 times in FY18 (prov) and DSCR of 1.21 times in FY17 and 1.49 times in FY18 (prov).

- **Moderate Gearing, liquidity and profitability**

Gearing, liquidity and profitability are moderate with analyzed TD/TNW, NPM, OPM and current ratio of 1.18 times, 1.54%, 5.73% and 1.3 times in FY18 (prov).

- **Small scale of operations**

Growth in revenue is marginal with Net Sales of Rs. 37.55 Cr. in FY18 (prov) against Rs. 36.84 Cr. in FY17 and TNW of Rs. 7.2 Cr. in FY17 which increased to Rs. 7.79 in FY18 (prov).

- **Weak working capital management**

Working capital management is weak marked by stretched receivables and payables of 151 days and 170 days in FY18 (prov).

- **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.

### **Rating Outlook: Stable**

BWR believes the **Varun Fertilizers Pvt Ltd** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.



### About the Company

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.

### Company Financial Performance

Growth in revenue is marginal and financial risk profile is average marked by modest net worth and debt coverage metrics with TNW of Rs. 7.2 Cr. in FY17 which increased to Rs. 7.79 in FY18 (prov) and DSCR of 1.21 and 1.49 times in FY17 and FY18 (prov) respectively. Gearing is moderate with TD/TNW of 1.53 times in FY17 and FY18 (prov). Liquidity is comfortable with current ratio of 1.3 times in FY18 (prov).

Key financial indicators are furnished in Annexure II.

### Rating History for the last three years

Instrument/ Facility	Current Rating (August 2018)			Rating History		
	Type	Amount (Rs. Crs)	Rating	2017	2016	2015
<b>Fund Based</b> Cash Credit	Long term	8.00	BWR B+ Outlook : Stable	Not Rated	Not Rated	Not Rated
<b>Total</b>		<b>8.00</b>	<b>₹ Eight Crore Only</b>			

**Status of non-cooperation with previous CRA - Not applicable**

**Any other information - Not applicable**

### Annexure I – Details of Rated Facilities

Bank Name	Bank Facilities	Facility Type	Rated Amount (Rs. Crs)
Axis Bank, Geeta Bhawan Branch,	Cash Credit	Fund based	8.00

Indore		(Long term)	
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**Annexure II - Key Financial Indicators**

Key Parameters	Units	2017	2016
Result Type		(Audited)	(Audited)
Operating Revenue	₹ Cr	38.02	36.17
EBITDA	₹ Cr	2.16	2.17
PAT	₹ Cr	0.46	0.44
Tangible Net worth	₹ Cr	7.2	6.75
Total Debt/Tangible Net worth	Times	1.53	1.67
Current Ratio	Times	1.21	1.26

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Entities](#)

For any other criteria obtain hyperlinks from website

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

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**About Brickwork Ratings**

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

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