

March 07, 2023

## Nanda Chemicals Private Limited: [ICRA] BBB- (Stable)/[ICRA] A3; Rating assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Cash Credit	20.0	[ICRA] BBB- (Stable); Assigned
Short-term: Non-fund based – Letter of Credit	40.0	[ICRA] A3; Assigned
Long-term/Short-term: Unallocated limits	15.0	[ICRA] BBB- (Stable)/ [ICRA] A3; Assigned
<b>Total</b>	<b>75.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The assigned ratings factor in Nanda Chemicals Private Limited’s (NCPL) integrated manufacturing facility for production of di calcium phosphate (DCP) and sulfuric acid, along with the favourable demand outlook for these products. The DCP plant commenced operations in August 2021 and the sulfuric acid plant in July 2022. With full scale commencement of operations, the revenues are expected to increase to more than Rs. 80 crore for FY2023 from Rs. 33.1 crore for FY2022. The operating profit margins remained healthy at around 45% in 9M FY2023 on account of sizeable inventory gains during the current fiscal, along with higher realisations. The prices of DCP and sulfuric acid increased significantly in the current year primarily driven by increase in rock phosphate and sulfur prices. Although the margins are likely to moderate going forward, it is estimated to remain at above 15% levels going forward. Any significant weakening of the profitability margins from the expected level remains a key monitorable.

NCPL is held by the promoters of BVSR Constructions Private Ltd (BVSR, rated [ICRA]BBB+(Stable)), which is into construction of road and irrigation projects. The ratings consider the receipt of timely support from the BVSR Group towards any funding requirement at NCPL, if any. The manufacturing facility was completed at a cost of Rs. 110 crore and was funded by Rs. 30.0-crore promoter contribution, Rs. 48.0-crore Optionally Convertible Debentures from BVSR and the remaining Rs. 32.0 crore as preferential shares from BVSR KP Road Projects Private Limited. Further, BVSR has provided corporate guarantee for the working capital facilities availed by NCPL.

The ratings are, however, constrained by the company’s limited track record of operations in manufacturing DCP and sulfuric acid and high working capital intensity due to high inventory levels. Further, ICRA notes the vulnerability of the company’s profitability to the adverse fluctuations in raw material costs amid intense competition in the industry. The ratings consider the agro-climatic and regulatory risks associated with the chemical industry business and the susceptibility of NCPL’s profitability margins to foreign exchange (forex) fluctuations.

The Stable outlook reflects ICRA’s opinion that the company will continue to benefit from its integrated manufacturing facility and the favourable demand for DCP and sulfuric acid supporting the revenues.

### Key rating drivers and their description

#### Credit strengths

**Integrated nature of operations** – NCPL runs integrated operations in the cattle feed segment with in-house manufacturing of sulfuric acid, wherein the company will benefit from the cost competitive structure and maintain healthy profitability margins. The total project cost is Rs. 110 crore and was funded by Rs. 30.0-crore promoter contribution, Rs. 48.0-crore OCDs from BVSR

and the remaining Rs. 32.0 crore as preferential shares from BVSRRP Road Projects Private Limited. It commenced operations in August 2020 with manufacturing of probiotics and gradually in March 2021, the company commercialised DCP. NCPL also started manufacturing sulfuric acid in July 2022.

**Healthy profitability margins** – In 9M FY2023, the company achieved operating margins of 45% on account of sizeable inventory gains, along with higher realisations. The prices of DCP and sulfuric acid has increased significantly in the current year, primarily driven by an increase in rock phosphate and sulfur prices. Further, these are expected to moderate going forward as witnessed in the past few months and the operating margins are estimated to moderate to above 15% levels.

**Prior experience of the promoter group in the fertiliser business** – NCPL is promoted by the promoters of the BVSRRP Group, which has more than four decades of experience in the construction business and an established track record for successful project execution. The company's promoters have an extensive experience in the chemical industry. Mr. Ravi Shankar Reddy, Director, has been in the chemical fertiliser industry for over a decade, in Lakshmi Ganesh Agro Fertiliser Private Limited, which has a 20 tonnes per day (TPD) DCP plant, and Vinayaka Agro Fertilisers India Private Limited, which has a 0.12 million tonnes per annum (TPA) single super phosphate fertiliser plant.

### Credit challenges

**Working capital-intensive nature of operations** – NCPL sells DCP to feed manufacturers and the payments are received within 30 days. For acid sales, the payments are against cash or within a credit period of one week. The company has to extend a large credit period for probiotic sales, which account for less than 3% of the turnover. At present, it is procuring rock phosphate every six months to save consignment costs. The utilisation of the CC facility stood high at 95% for the last twelve months that ended in January 2023.

**Stiff competition due to fragmented industry structure** – The chemical industry in India is highly fragmented with the presence of several small and large players in the organised and unorganised sectors. Further, the industry faces competition from established players in the international market.

**Vulnerability to high regulatory risk due to nature of operations** – The chemical industry attracts considerable attention on issues related to air/water pollution. The implementation of stringent pollution control norms led to the operational closure of many small players, which could not meet the control standards. Accordingly, NCPL's operations remain vulnerable to any unfavourable regulatory (environmental) policy changes.

### Liquidity position: Adequate

NCPL's liquidity position remains adequate with expected positive cash flows from operations, which supports the company's working capital requirements and nil repayment obligations. Further, it has cash and bank balances to the tune of Rs. 3.4 crore as on December 31, 2022, at a standalone level, along with cushion in working capital facilities. It does not have any long-term bank borrowings.

### Rating sensitivities

**Positive factors** – The ratings may be upgraded if the company is able to increase its scale of operations and operating margins resulting in an improvement in credit metrics and liquidity position on a sustained basis. Further, improvement in the credit profile of the promoter may support a rating upgrade.

**Negative factors** – The ratings could be downgraded if the company's scale of operations, or profitability margins are lower than estimated, or if there is a stretch in the working capital cycle weakening its debt coverage metrics and liquidity position on a sustained basis. The rating could face a downward pressure if there is any deterioration in the credit profile of the promoter, BVSRRP, or if there is any delay in support to meet the funding requirements or weakening of support philosophy from BVSRRP.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology- Chemicals</a> <a href="#">Rating Approach-Implicit support from parent or group</a>
Parent/Group support	Parent Company: BVSr Constructions Private Limited (ICRA BBB+; Stable)  The ratings assigned to NCPL factor in the high likelihood of its BVSr extending financial support, given the strategic importance that NCPL holds for the Group. ICRA expects BVSr to be willing to extend financial support to NCPL out of its need to protect its reputation from the consequences of a Group entity's distress. BVSr has extended a corporate guarantee for working capital lines of NCPL.
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

## About the company

Nanda Chemicals Private Limited (NCPL) was incorporated on October 14, 2019 by Mr. Srinivasul Reddy Battalapally, promoter of BVSr Constructions Private Limited. The company is engaged in production of DCP, sulfuric acid, hydrated lime, probiotics and gypsum. The manufacturing plant is located in Nellore, Andhra Pradesh, which is near to Krishnapatnam Port.

### Key financial indicators (audited)

	FY2021	FY2022	9M FY2023
Operating income	2.9	33.1	55.1
PAT	-2.6	-8.9	6.4
OPBDIT/OI	-71.8%	-14.0%	47.9%
PAT/OI	-89.7%	-26.8%	11.7%
Total outside liabilities/Tangible net worth (times)	-28.5	6.6	5.6
Total debt/OPBDIT (times)	-31.7	-21.7	3.0
Interest coverage (times)	-21.8	-5.6	11.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

### Status of non-cooperation with previous CRA

Other CRA	Ratings	Date
India Ratings	IND BBB-/IND A3; ISSUER NOT COOPERATING	January 31, 2023

Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023 Mar 07, 2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
1 Fund-based – Cash Credit	Long term	20.0	-	[ICRA] BBB-(Stable)	-	-	-
2 Non-fund based – Letter of Credit	Short term	40.0	-	[ICRA] A3	-	-	-
3 Unallocated limits	Long term and short term	15.0	-	[ICRA] BBB-(Stable)/[ICRA]A3	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund-based – Cash Credit	Simple
Short-term: Non-fund based – Letter of Credit	Very Simple
Long-term/Short-term: Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Cash Credit	NA	NA	NA	20.0	[ICRA] BBB- (Stable)
NA	Non-fund based – Letter of Credit	NA	NA	NA	40.0	[ICRA] A3
NA	Unallocated limits	NA	NA	NA	15.0	[ICRA] BBB- (Stable)/ [ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

## ANALYST CONTACTS

**Rajeshwar Burla**  
+91 40 4067 6527  
[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Ashish Modani**  
+91 22 6114 3414  
[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

**Vinay Kumar G**  
+91 40 4067 6533  
[vinay.g@icraindia.com](mailto:vinay.g@icraindia.com)

**Doddapanani Bhavya**  
+91 40 4067 6519  
[doddapanani.bhavya@icraindia.com](mailto:doddapanani.bhavya@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.