February 26, 2021

Bharat Agri Fert And Realty Ltd: Long-term rating downgraded, short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	15.00	15.00	[ICRA]B+ (Stable); Downgraded from [ICRA]BB- (Stable)
Non-fund based Limits	5.00	5.00	[ICRA]A4; Reaffirmed
Total	20.00	20.00	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the long-term rating of Bharat Agri Fert And Realty Limited (BAFRL) reflects the deterioration in its financial risk profile evidenced by sizeable operating losses during the past two fiscals owing to under absorption of fixed costs, given the low capacity utilisation in the fertiliser segment and limited construction activities in real estate business. It also faced significant losses in its resort business due to low occupancy level. Further, the sizeable losses in business continue in the current fiscal as reflected by net loss of Rs. 2.84 crore in 9M FY2021 against a net loss of Rs. 4.24 crore in 9M FY2020 on account of the challenging business environment caused by the pandemic. Further, the ratings remain constrained by the company's the high working capital intensity of operations arising from its elongated receivable cycle in the fertiliser segment and high inventory (WIP and finished) holding in the real estate segment. Moreover, delays in realisation to the tune of Rs. 8.99 crore from the exit of investment in MOL Chem Limited resulted in a stretched liquidity position. The ratings are constrained by the residual project execution risk in its real estate business, given its initial stage of development, with project bookings yet to be opened. The ratings consider its high dependency on internal accruals as well as customer advances to fund the pending cost of Rs. 72.80 crore on the project. Any funding gaps may have to be met through external borrowing, thereby adversely impacting the company's profitability, coverage indicators and capital structure.

The ratings, however, continue to factor in the extensive experience of the promoters in fertiliser as well as real estate business, its diversified business operations and comfortable capital structure, despite moderation in net worth owing to sizeable losses in the past.

The Stable outlook reflects ICRA's opinion that the company will continue to benefit from the extensive experience of the promoters, which shall guide BAFRL towards moderate growth and profitability over the medium term.

Key rating drivers and their description

Credit strengths

Established experience of promoter in fertiliser and real estate industries – The company is headed by Mr. Yogendra Patel (Chairman and Managing Director), who has an extensive experience of over three decades in the fertiliser industry and has been involved in the real estate segment for about a decade. The promoters, as well as its key management personnel, have extensive experience in the fertiliser and real estate segments, which shall guide its future growth. BAFRL **has diversified its operations in the fertiliser, real estate and hospitality segments, which mitigate the sector specific risk to a certain extent.**

Comfortable capital structure – The company's capital structure remained comfortable with gearing of 0.22 times as on March 31, 2020 and 0.24 times as on December 31, 2020. However, its net worth position moderated to ~Rs. 62.76 crore as on December 31, 2020 from Rs. 72.16 crore as on March 31, 2019.

Flexibility in case of exigency because of high-quality low-cost land bank – The company has a land bank of ~120 acre in Wada, in Thane district of Maharashtra. Since the lands were acquired around four decades back, the actual market value of the same at present remains very high. BAFRL, at present, is utilising ~28 acres of land for its existing set up and is planning to utilise ~30 acres of land for developing a wedding destination (project on hold as on date), while the rest of the ~62 acres land shall be utilised for its future projects. Further, the company has a commercial property of ~11,000 sq. ft. at a prime business location in South Mumbai and Andheri. The huge land bank, with significant market value, provides strong support for its future growth. However, timely monetisation of such inventory would remain critical to ease liquidity pressure in case of exigencies.

Credit challenges

Modest scale of operation with fluctuating revenues and sizeable operating losses during past two fiscals; loss at operating level in 9M FY2021 – BAFRL's operating income (OI) has remained modest with considerable fluctuations over the last five years. Its OI declined by ~50.19% to Rs. 22.66 crore in FY2020 against Rs. 45.49 crore achieved in FY2019, primarily due to decrease in sales from real estate (by 20%), fertiliser (by 59%) as well as resort segments (by 17%). The revenues from the fertiliser and resort segments were hit, to some extent, by the floods in FY2020. In the current year, though the revenues increased by almost 30% to Rs. 21.76 crore in 9M FY2021 against ~Rs. 16.73 crore achieved in 9M FY2020, the company's overall scale of operations continues to remain low. At the operating level, it witnessed a loss of ~Rs. 0.26 crore in FY2019, which increased to ~Rs. 3.45 crore in FY2020. Further, scale of operations continued to remain weak leading to operational loss of Rs. 0.59 crore in 9M FY2021.

High working capital intensity owing stretched receivable position and high inventory holding – Delays in receipt of payments from customers in the fertiliser segment has led to an extended receivable position. The total outstanding debtors stood at Rs. 11.59 crore as on March 31, 2020 (which included debtors more than 180 days of Rs. 10.87 crore) and has marginally improved to Rs. 10.95 crore (which includes debtors more than 180 days of Rs. 9.23 crore) as on December 31, 2020. This coupled with high WIP of ongoing residential real estate project, as inherent in the real estate segment, leads to high working capital intensity in the business. The working capital intensity, as represented by NWC/OI, stood at ~221.06% as on March 31, 2020 and 153.91% as on December 31, 2020.

Residual project execution risk given its initial stage of construction – The company is, at present, developing phase-III of Shiv Sai Paradise at Manjiwada, in Thane district of Maharashtra. It has estimated a project cost of Rs. 99.27 crore and has incurred a cost of Rs. 26.47 crore till December 31, 2020. The project is expected to be completed by FY2027 (against the previous expectation of FY2025). BAFRL is not planning to avail any term loans for the project. This indicates high dependency on internal accruals and customer advances to fund the pending construction costs. As a result, the regular booking and timely collection of advances remain critical for funding the pending project cost, as well as its timely completion. Moreover, given the initial stage of construction, the booking of flats is yet to be initiated. This exposes the project to residual execution risks.

Resort business under hospitality segment remain loss making with low occupancy levels – The company has recently diversified into the resort segment and commenced Anchaviyo resort in FY2016. However, due to its initial year of operations with low occupancy rate of 37.46% in FY2019 and 30.38% in FY2020, the hospitality segment continues to be loss making. It recorded an operating loss of Rs. 2.29 crore in 9M FY2021 against Rs. 3.41 crore in FY2020. The operations of the resort were closed for almost seven months in the current year prior to its reopening by November 2020.

Liquidity position: Stretched

The company has availed Guaranteed Emergency Credit Line (GECL) of Rs. 2.90 crore in November 2020. The same is expected to have a moratorium of 12 months, followed by 36 equal instalments. Further, the company has a pending cost of ~Rs. 72.80 crore to be incurred for its ongoing real estate project. BAFRL is not likely to avail any term loans for the same. Since the entire project cost and capex needs to be funded through internal accruals and customer advances, its liquidity profile is expected to be **stretched**. The average utilisation of fund-based working capital limits under the fertiliser segment stood at ~81.33% during the last 15 months period that ended in January 2021. The company had a buffer of Rs. 2.35 crore as on January 31, 2021 against a sanctioned limit of Rs. 15.00-crore working capital limits under the fertiliser segment. Its ability to achieve timely booking and strong collection efficiency, speedy realisation of long-term debtors and realisation of ~Rs. 8.99 crore from MOL Chem Limited, remain critical.

Rating sensitivities

Positive factors – The ratings are likely to be to be upgraded if BAFRL demonstrates a turnaround in operations with sustained improvement in scale of operation, profitability, along with liquidity position.

Negative factors – Negative pressure on BAFRL's ratings could arise if there are continued operational losses, stretch in debtors' position or delays in realisation from MOL Chem Limited.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Rating Methodology Rating Methodology for Entities in Fertiliser Industry Rating Methodology for Real Estate Entities Rating Methodology for Entities in Hotel Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on consolidated financial statements of Bharat Agri Fert And Realty Limited and its associate company MOL Chem Limited.

About the company

Incorporated in 1958, the company made a public issue in 1962 and was listed on the Bombay Stock Exchange. It has diversified operations across fertiliser, real estate and hospitality segments. BAFRL is involved in manufacturing nitrogen, phosphorous and potassium (NPK) fertilisers, namely single super phosphate – powder and granulate form. Since 2008, the company has forayed into real estate development at one of its land bank at Manjiwada in Thane. During FY2008-FY2017, it has completed phase-I and phase-II of the project with a saleable area of ~3.70 lakh sq. ft. At present, development of phase-III of the project with total 2.38 sq. ft. saleable area (carpet area of 1.64 lakh sq.ft) is under process. Further, during the last few years, the company has ventured into the hospitality sector with the development of resort at its existing land bank of ~8 acres at Palghar district of Wada, Maharashtra. BAFRL's first resort, named Anchaviyo resort, located at Palghar (Maharashtra), commenced commercial operations in FY2016.

Key financial indicators (Audited)

BAFRL (Consolidated)	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	45.49	22.66	21.76
PAT (Rs. crore)	-3.36	-6.51	-2.84
OPBDIT/OI (%)	-0.58%	-15.23%	-2.73%
ROCE (%)	-1.56%	-6.01%	-3.26%
Total Outside Liabilities/Tangible Net Worth (times)	0.58	0.46	0.48
Total Debt/OPBDIT (times)	-55.92	-4.19	-18.69
Interest Coverage (times)	-0.12	-2.35	-0.65
DSCR (times)	0.76	-1.63	-0.22

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					26-Feb-2021	22-Nov-2019	29-Aug-2019	05-Apr-2018	-
1	Cash Credit	Long Term	15.00	-	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
2	Letter of Credit	Short Term	5.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]B+ (Stable)
NA	Letter of Credit	NA	NA	NA	5.00	[ICRA]A4

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MOL Chem Limited	26%	Full Consolidation

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