March 08, 2024

Basant Agro-Tech (India) Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based - Term loan	20.53	20.53	[ICRA]BBB+; rating reaffirmed; outlook revised to Negative from Stable
Long-term - Fund based - Cash credit	117.00	117.00	[ICRA]BBB+; rating reaffirmed; outlook revised to Negative from Stable
Short-term - Non-fund based	91.00	91.00	[ICRA]A2; reaffirmed
Total	**228.53**	**228.53**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook of Basant Agro-Tech (India) Limited (BATIL) to Negative factors in the moderation in its profitability, leading to operating losses in Q3 FY2024 and 9M FY2024 as the downward revision in subsidy for single super phosphate (SSP) under the Nutrient-Based Subsidy (NBS) scheme from October 1, 2023, resulted in inventory losses. The lower profitability will moderate the credit metrics in the near term. However, ICRA notes that the GoI has increased the subsidy to some extent for the season starting April 1, 2024, which should support the contribution margins, going forward.

The reaffirmation of the ratings factors in BATIL's established presence in Maharashtra, Madhya Pradesh and Karnataka as a manufacturer of single super phosphate (SSP) and nitrogen, phosphorus and potassium (NPK) mixture fertilisers, as well as a processor of hybrid and straight variety seeds. ICRA notes that its eight manufacturing plants in the interior locations provide better access to the end-user markets and lower freight costs against competitors with manufacturing units in coastal areas. The ratings also favourably consider the extensive experience of the promoters in the fertiliser and seeds businesses. ICRA also takes note of the ramp-up in the LABSA unit, although the contribution remains moderate.

The company's capitalisation and coverage metrics had remained comfortable in the past but have moderated in YTD FY2024, driven by subdued profitability and reduction in creditors. Forecast of a normal monsoon for the upcoming kharif season should support the offtake volumes of the fertiliser sector, thereby providing a boost to the company's cash generation. Nevertheless, an improvement in the performance will remain a key monitorable, going forward.

The ratings remain constrained by the low value addition involved in manufacturing NPK fertilisers and the intense competition in the fertiliser and seed sectors, leading to moderate operating profitability. The ratings are also constrained by the working capital-intensive nature of the business, marked by higher inventory days. BATIL's working capital intensity has increased since FY2023 owing to the availability of lower credit period from rock phosphate suppliers and the company purchasing key raw material on cash basis. Hence, the company's working capital borrowings rose sharply by the end of FY2023 and are expected to remain elevated by the end of FY2024, coupled with higher input prices and lower credit period. The working capital intensity is expected to improve with the easing of the availability of rock phosphate from key suppliers.

ICRA also notes the vulnerability of the company's scale of operations and profitability to agro-climatic conditions as well as any adverse fluctuation in raw material prices and foreign exchange rates. The ratings further note that being in the fertiliser business, the company's operations remain exposed to regulatory risks.

Key rating drivers and their description

Credit strengths

Established presence in Maharashtra, Karnataka and Madhya Pradesh; extensive experience of promoters - The company is promoted by the Bhartia family, which has an extensive experience in the fertiliser and seed industries. BATIL has an established presence in Maharashtra, Madya Pradesh and Karnataka with its eight manufacturing facilities and an established network of dealers and distributors. The company's trademark fertiliser brand is Krishi Sanjivani.

Location advantage with plants in interior areas offers better access to consumer markets - BATIL's manufacturing plants are in interior areas - such as Kanheri (Maharashtra), Kaulkhed (Maharashtra), Jalgaon (Maharashtra), Sangli (Maharashtra), Hospet (Karnataka), Nagpur (Maharashtra) and Neemuch (Madhya Pradesh) - which ensures good rural coverage. The strategic location of the manufacturing plants also provides better access to the end-user markets, along with lower freight costs compared to competitors with plants in coastal areas. Moreover, two of the company's plants at Sangli and Hospet are near the Krishna and Tungabhadra rivers, respectively, which reduces the vulnerability of demand to the monsoons to some extent. Proximity to the demand centres also lowers the impact on profitability as the GoI does not provide freight subsidy on SSP sales.

Comfortable capital structure and coverage metrics - The company's credit profile had remained healthy with interest coverage of 3.5x in FY2023 and total debt/OPBDITA of 3.4x as on March 31, 2023. The company has witnessed a significant moderation in profitability and credit profile in 9M FY2024, though this is expected to improve FY2024 onwards with the revision in subsidy for SSP, softening of input prices and a normal monsoon outlook for the upcoming kharif season which should support the volume offtake of fertilisers.

Credit challenges

Working capital-intensive operations - BATIL needs to maintain high inventory levels due to the seasonal nature of the business, evident from the inventory days of 151 in FY2023 and 174 in FY2022. ICRA notes that the company offers discounts to customers who make advance payments and higher cash-and-carry parties. However, in FY2023, the advances from customers had reduced due to higher retail prices of fertilisers; the debtor days remained at 41 (same as the previous year) and the creditor days reduced to 56 in FY2023 compared to 77 in FY2022. Consequently, the net working capital intensity increased to 33.1% in FY2023 from 28.1% in FY2022. The working capital intensity had increased further at the end of H1 FY2024.

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 are linked to the global market and exhibit volatility with changes in international prices and foreign exchange rates. As BATIL needs to maintain adequate inventory due to the seasonal nature of the fertiliser and seed industries, the stocked inventory is exposed to inventory price risk caused by the volatility in raw material prices. Moreover, BATIL's scale of operations and profitability remain susceptible to the agro-climatic conditions in the country, as the demand for seeds and fertilisers in India is influenced by the monsoons.

Exposed to regulatory risk - BATIL operates in a highly regulated industry and the selling prices of its products depend on the subsidy allocated by the Government of India to various nutrients. The company's operations, thus, remain exposed to any sharp variation in the subsidy amount and delays in receiving the same, apart from any other regulatory intervention on product prices.

Environmental and Social Risks

Environmental considerations: Global efforts towards decarbonisation and focus on the impact of fertiliser use on soil health may lead to the development of new types of fertilisers and lower the demand for conventional fertilisers. However, in India, ICRA does not expect any material impact on conventional fertiliser offtake in the near to medium term, given the country's import dependence as well as the time taken by the end consumers to accept new products.

Social considerations: Rising awareness about the use of chemical fertilisers in farming and the growing clamour for organic produce can impact fertiliser offtake. The productivity of organic farming remains low at present and, thus, the near-term risk to fertiliser offtake is low. Going forward, technological breakthroughs resulting in organic alternatives with equal or better productivity can pose a significant threat to fertiliser offtake, although the threat remains long-term in nature.

Liquidity position: Adequate

BATIL's liquidity position is supported by the availability of cushion in the working capital facility, which has been utilised up to 85% on an average for the last 12 months ended January 2024, free cash balance of Rs. 1 crore at the end of February 2024 and expected net cash accruals of Rs. 2.5-3 crore in FY2024 which should allow the company to meet its debt repayments in FY2024. Additionally, the liquidity is supported by the infusion of additional promoter loans during YTD FY2024 for the working capital funding.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company registers a significant increase in its scale of operations, while maintaining the profitability and efficiently managing the working capital cycle. Further, a total debt/ OPBIDTA of less than 2.3 on a sustained basis would be a positive for the ratings.

Negative factors – Any significant decline in the scale of operations with the deterioration in profitability and working capital cycle could lead to a downgrade. Further, a total debt/ OPBIDTA of more than 3.0 on a sustained basis would be negative for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Entities in the Fertiliser Industry]
Parent/Group support	Not Applicable
Consolidation/Standalone	Not applicable

Note (for analyst reference only):

About the company

Basant Agro-Tech (India) Limited (BATIL) manufactures and markets fertilisers, such as NPK (nitrogen, phosphorous, potash) compounds and SSP (single super phosphate), under the Krishi Sanjivani brand in Maharashtra, Madhya Pradesh, Karnataka and Andhra Pradesh. It is also engaged in the research and development, processing and marketing of ~130 varieties of traditional and hybrid seeds. BATIL set up its first plant in 1991 at Akola for producing NPK fertilisers.

At present, the company has one cold storage facility at Akola; three plants for NPK – at Akola & Sangli in Maharashtra and Hospet in Karnataka; three plants for SSP at Kanheri & Jalgaon in Maharashtra and Neemuch in Madhya Pradesh; two manufacturing plants for seeds at Akola and Nashik in Maharashtra. The combined installed capacity for producing NPK is

1,50,000 TPA. The current installed capacity for producing SSP is 3,39,000 TPA, after the company added a capacity of 1,32,000 TPA under SSP, post purchase of a defunct plant in Jalgaon, Maharashtra, in FY2012.

The company is also engaged in the business of generating power through wind turbines and operating and maintaining warehousing and cold storage facilities. In FY2018, the company had started organic farming and has introduced products such as wheat grass powder, moringa leaf powder and barley grass powder, which they are selling through Patanjali and Amazon. Sales of the newly introduced products are low compared to the total turnover. In FY2021, the company had also started a LABSA manufacturing plant with an installed capacity of 22,000 MT.

The seeds division of BATIL is based out of Akola and produces traditional and hybrid seeds. It produces straight/hybrid seeds such as paddy, soya, cotton, wheat, jawar, sweetcorn, maize, etc., which have enhanced yields compared to normal seeds. The top three seeds produced are soya, paddy and cotton.

Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Operating income	448.2	549.3	305.4
PAT	19.0	18.4	-2.8
OPBDIT/OI	6.8%	6.5%	4.2%
PAT/OI	4.2%	3.3%	-0.9%
Total outside liabilities/Tangible net worth (times)	1.4	1.4	-
Total debt/OPBDIT (times)	2.4	3.5	-
Interest coverage (times)	5.1	3.4	-

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on February 28, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 08, 2024	Aug 11, 2023	Aug 02, 2022	Oct 20, 2021	Sep 10, 2020
1	**Term loans**	Long-term	20.53	13.54	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
2	**Cash credit**	Long-term	117.00	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
3	**Non-fund based**	Short-term	91.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based – Term loan	Simple
Long term – Fund-based - Cash credit	Simple
Short term – Non-fund based	Very Simple

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	**Long term – Fund based - Term loan 1**	May 2021	8.45%	FY2028	4.13	[ICRA]BBB+ (Negative)
NA	**Long term – Fund based - Term loan 2**	Aug 2019	9.40%	FY2026	3.30	[ICRA]BBB+ (Negative)
NA	**Long term – Fund based - Term loan 3**	Apr 2022	9.40%	FY2029	7.00	[ICRA]BBB+ (Negative)
NA	**Long term – Fund based - Term loan 4**	July 2022	9.40%	FY2030	6.10	[ICRA]BBB+ (Negative)
NA	**Long term – Fund based – Cash credit**	NA	NA	NA	117.00	[ICRA]BBB+ (Negative)
NA	**Short term – Non-fund based**	NA	NA	NA	91.00	[ICRA]A2

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

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