ICRA

August 29, 2019

Bharat Agri Fert And Realty Ltd: Ratings 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]BB (Stable); Reaffirmed
Non-fund based Limits	15.00	5.00	[ICRA]A4+; Reaffirmed
Total	30.00	20.00	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings for Bharat Agri Fert And Realty Ltd (BAFRL or the company) continues to factor in the extensive experience of the promoters in fertilizer as well as real estate industry and the company's diversified operation in fertilizer, real estate and hospitality sector which mitigates sector concentration risks to an extent. The ratings also continue to take into consideration the company's comfortable capital structure marked by strong net worth and relatively lower reliance on external debt.

The ratings, however, remain constrained by the company's modest scale of operations resulting from low capacity utilisation levels in the fertilizers segment due to prevailing challenging conditions arising from delayed payment from customers as well as subsidy by the Government. Furthermore, the company has undertaken limited activities in its real estate segment which has restricted the growth in operating income in the last few years. The ratings are also constrained by the operating loss incurred by the company in FY2019 due to escalation in operating costs resulting from provisioning of bad-debts coupled with decrease in share of revenue from the higher margin yielding real estate segment and continued losses in hospitality segment. The ratings also take into account company's high working capital intensity arising from the elongated receivable cycle in fertilizer segment and high inventory (WIP& Finished) holding in the real estate segment. Further, the ratings take note of the company's medium-term capital expenditure plan of ~Rs. 30.00 crore for the development of a high-profile wedding destination to be located near its existing resort in Palghar, Maharashtra. The said capex is likely to be met through internal accruals and to an extent will remain depended on the customers advances. Furthermore, the ratings are constrained by the residual project execution risk in its real estate business given its initial stage of development and high dependency on internal accruals and customer advances to fund the pending cost of Rs. 75.00 crore for the project. Any funding gaps may have to be met through external borrowing, thereby impacting the company's profitability, coverage indicators and capital structure, and thereby creating downward pressure on the rating.

Outlook: Stable

The Stable outlook rating reflects ICRA's opinion that the company will continue to benefit from its long track record of operations and will continue to grow at a moderate scale with better profit margin backed by the company's diversified presence in fertilizer, real estate and hospitality segment which limits industry specific risk to some extent. The outlook may be revised to positive if the company demonstrates a sustained improvement in its capacity utilization in fertilizer segment and overall scale of operations, sustained improvement in profitability, interest coverage indicator, debt protection metrics and liquidity position with adequate free cash and undrawn working capital line of credits. Concurrently, the ability of the company to demonstrates efficient management of working capital, as it pursues its growth objectives remains critical. Consequently, the outlook may be revised to Negative if, for reasons including decline in scale of operations and capacity utilisation in fertilizer segment or resort segment, continued operational and net losses or weak profitability leading to lower cash accruals, weak bookings achieved for its residential real estate project leading to lower customer advances and increase in dependency on external loans for its ongoing residential project and capex plan which shall lead to deterioration in capital structure. Any continued stretch in liquidity position due to delayed payments from the fertilizer segment along with high utilisation of working capital limits or absence of any notable improvement in interest coverage from its existing level would lead to a downward revision in rating.

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 & Managing Director), who has a extensive experience of over three decades in fertiliser industry and about a decade in the real estate segment. The company's promoters as well as its key management personnel have extensive experience in the fertiliser and real estate segments, which shall guide its future growth.

Diversified business operations in fertilizers, real estate and hospitality segment - Operations of the company are diversified in real estate and fertilizer segment. Real estate contributed ~15-33% to total revenues while fertilizer segment contributes ~60-80% to total revenues during last two years. Furthermore, the company has recently ventured into hospitality segment with commencement of resort named 'Anchaviyo' at Palghar (Maharashtra) in FY2016 which contributes to around 7% of the total revenues during the last two years. Having presence in Fertiliser and real estate segment, along with recent diversification into hospitality segment, the company has tried to diversify its business and mitigate to sector specific risk to a certain extent.

Comfortable capital structure marked by strong net worth and low external debt – The capital structure of the company remains strong as represented by continued gearing levels of 0.20 times as on March 31, 2019. Furthermore, the company is not expected to avail any term loans for the ongoing real estate project or for capex related to development of wedding destination. This will continue to provide comfort regarding the company's capital structure in the near to medium term.

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 Palghar district of Maharashtra. Since the lands were acquired around four decades back, the actual market value of the same at present remains very high. The company at present is utilising ~28 acres of land for its existing setup and is planning to utilise ~30 acres of land for developing a wedding destination, while the rest of the ~62 acres land shall be utilised for the future projects of the company. Further, the company also has a commercial property of ~11000 sq. ft. at prime business location in South Mumbai and Andheri. Hugh land bank with significant market value provides a strong support for future growth though timely monetisation of such inventory would remain critical to easy liquidity pressure.

Credit challenges

Modest and fluctuating scale of operation – Operating income of the company remains small and fluctuating in the range if Rs. 33.00 crore - Rs. 60 crore during last five years. Operating income of the company declined on a y-o-y basis during the period FY2015-FY2018, due to overall decline in sales from fertilizer as well real estate segment. However, OI of the company increased by 34.93% to Rs. 45.59 crore in FY2019 from Rs. 33.71 crore in FY2018, primarily due to increase in revenues from fertilizer segment to Rs. 35.39 crore in FY2019 to Rs. 20.21 crore in FY2018. This is back by increase in demand in company's NPK fertilized with added nutrients of zinc and boron. Small scale in turn provides limited cover for the fixed overhead cost of the company.

High bad debt provisioning in fertilizer segment and continued losses in resort segment has resulted in operating loss in FY2019– The company's real estate segment yields higher profits given the relatively lower project cost arising due to low land cost which has been procured during 1960's has led to overall strong profitability during FY2013-2015. However, with the gradual decrease in turnover from real estate segment during last two years as well as weak profitability in fertilizer segment and resort segment due to low scale of operation has led to overall weak operations margins during FY2016-FY2019. OPM of the company stood at 7.13% in FY2018, however, significant loss in fertilizer segment due to provisioning of bad debts of Rs. 3.24 crore, continued losses in resort segment as well as lower revenues and profitability from real estate segment, has led to operating loss of Rs. 0.26 crore in FY2019. Operating loss in FY2019 in turn less to net loss of Rs. 3.36 crore in FY2019. However, with the expected increase in scale of operations via increase in scales from real estate, fertilizer segment and resort segment, the profitability is expected to improve in near to medium term.

Residual project execution risk - The company is currently developing phase III of Shiv Sai Paradise at Manjiwada, Thane district of Maharashtra. The company has estimated a project cost of Rs. 99.27 crore against with it has incurred a cost of Rs. 24.28 crore (~25% of project cost) on TDR purchase and land development. The project is expected to be completed by FY2025. The company is not planning to avail any term loans for the project. This indicates high dependency on internal accruals and customer advances to fund pending construction costs. As a result, the regular booking and timely collection of advances remains critical for funding the pending project cost and for timely completion of the project. Moreover, given the initial stage of construction, the booking of flats is yet to be initiated. This exposes the project to residual execution risks.

Initial years of operations in hospitality segment - The company has recently diversified into resort segment and commenced Anchaviyo resort in FY2016. However, due to initial year of operations, with low occupancy rate of 33% in FY2018 and 37% in FY2019, the hospitality segment continues to be loss making with operating loss of Rs. 1.38 crore in FY2019, against operating income of Rs. 3.41 crore in FY2019.

Working capital intensive nature of business - Delays in receipt of payments from customers as well as subsidies from GoI in the fertilizer segment lead to extended receivable of ~5-6 months. This coupled with high WIP and finished stock as inherent in real estate segment leads to high working capital intensity in the business. Working capital intensity as represented by NWC/OI stands at 113.23% in FY2019. Further, utilisation of working capital sanctioned limits remains high at ~92% of the sanctioned limits during the last 15 months ended June 2019.

Liquidity position

Negative free cash flow from operations as well as high utilization levels of average of 92% of the total sanctioned limits during the last 15 months and minimal cash balance as of 31st March 2019, indicates stress in the liquidity profile. However, the company is expected to receive amount of Rs. 10.85 crore from exit of its investment from MOL Chem Limited in FY2020, which shall provide some support to liquidity profile of the company in near future. Further, some comfort is drawn from the company's existing high-quality, low-cost land bank, which provides flexibility in case of any exigency. However, timely monetisation of such inventory would remain critical for easing of liquidity pressure.

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 rating is based on standalone financial statements of the company

About the company

Incorporated in year 1958, the company made a public issue in 1962 and was listed on Bombay Stock Exchange. Operations of the company is diversified across fertilizer, real estate and hospitality segments. BAFRL is engaged into manufacturing of NPK (Nitrogen, Phosphorous, and Potassium) fertilizers, namely Single Super Phosphate – powder and granulate form. Since 2008, the company has also forayed into real estate development at one of its land bank at Manjiwada in Thane. During the period FY2008 till FY2017, the company has completed phase-I and Phase-II of the project with a saleable area of ~3.70 lakh sq.ft. Presently, 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 last few years, the company has also ventured into 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 its commercial operations during FY2016.

In FY2019, the company reported a net loss of Rs. 3.36 crore on an operating income of Rs. 45.49 crore compared to a net profit of Rs. 0.01 crore on an operating income of Rs. 33.71 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	33.71	45.49
PAT (Rs. crore)	0.01	-3.36
OPBDIT/OI (%)	7.13%	-0.58%
RoCE (%)	1.49%	-1.56%
Total Outside Liabilities/Tangible Net Worth (times)	0.23	0.20
Total Debt/OPBDIT (times)	7.27	-55.92
Interest Coverage (times)	1.97	-0.12
NWC/OI	157%	113%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					August 2019	April 2018	-	-
	Cash Credit	Long-term	15.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
	Letter of credit	Short-term	5.00	-	[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 www.icra.in

Annexure-1: Instrument details

ISIN	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]BB (Stable)
NA	Letter of credit	NA	NA	-	5.00	[ICRA]A4+

Source: Bharat Agri Fert And Realty Ltd

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