November 22, 2019

Bharat Agri Fert And Realty Ltd: Update on Material event; Ratings downgraded to [ICRA]BB- (Stable) and [ICRA]A4

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); Downgraded from [ICRA]BB(Stable)
Non-fund based Limits	5.00	5.00	[ICRA]A4; Downgraded from [ICRA]A4+
Total	20.00	20.00	

**Instrument details are provided in Annexure-1*

Material Event

Bharat Agri Fert And Realty Ltd (BAFRL or the company) has announced its financial results for the quarter ended and half year ended September 2019. The company has reported a net loss of Rs. 2.13 crore on an operating income of Rs. 13.66 crore for H1FY2020 against a net loss of Rs. 0.31 crore on an operating income of Rs. 22.44 for H1FY2019.

Impact of the Material event

ICRA has downgraded the long-term rating to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BB (pronounced ICRA double B) and has also downgraded the short-term rating to [ICRA]A4 (pronounced ICRA A four) from [ICRA]A4+ (pronounced ICRA A four plus) for the Rs. 20.00 crore bank lines of the company.

Rationale

The revision in ratings for Bharat Agri Fert And Realty Ltd (BAFRL or the company) takes into account the weak financial performance of company in H1 FY2020 as reflected by significant decline in operating income to Rs. 13.66 crore in H1FY2020 from Rs. 22.44 crore in H1FY2019. Further under absorption of fixed costs due to decline in scale of operation has resulted in operating loss of Rs. 0.31 crore in H1 FY2020 against operating profit of 1.32 crore in H1 FY2019. The downturn in operation is attributed to demand slump in fertilizers segment due incessant post monsoon rainfall in Maharashtra which resulted in crop damage. Furthermore, the excess post monsoon rainfall has resulted in flood like situation thereby hampering company's resort business resulting from low occupancy levels. Also, the company has undertaken limited construction activities in its real estate segment due to weak market condition which has restricted the growth in operating income from real estate segment in the last few years. The ratings also continue to take into account the company's high working capital intensity of operation arising from the elongated receivable cycle in fertilizer segment and high inventory (WIP& Finished) holding in the real estate segment leading to a working capital intensity as represented by NWC/OI of 195% as on 30th September 2019. 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 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.

However, the ratings continue 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 Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from its long track record of operations, which shall guide the company towards moderate growth and profitability in medium terms.

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 an 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 7-10% 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 – The capital structure of the company remains strong as represented by low gearing of 0.20 times as on March 31, 2019 and as on September 30, 2019 each. 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 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. 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

Significant decline in scale of operation and operating losses in H1FY2020 – The operating income of the company declined significantly by 39.10% to Rs. 13.66 crore during H1FY2020 against that of Rs. 22.44 crore achieved in H1FY2019, primarily due to decrease in scale of operations in fertilizer and resort segment. Fertilizer segment witnessed a capacity utilisation of 16.24% in H1FY2020 against a utilisation of 33.73% in H1FY2019, also, resort segment witnessed an occupancy level of 27.93% in H1FY2020 against 34.61% in H1FY2019. This is attributable to weak demand of SSP fertilizer in Maharashtra due to initial delays in onset of monsoon and later floods like situation witnessed in Maharashtra. Also, floods led to weak occupancy level of its resort with is located at the bank of Vaitarna river in Palghar (Maharashtra). Due to the same, the profitability of the company declined significantly. The company witnessed an operating loss of Rs. 0.31 crore in H1FY2020, against an operating profit of Rs. 1.32 crore during H1FY2019 due to significant increase in losses in fertilizer and resort segment, At Net level, loss increased to Rs. 2.13 crore in H1FY2020 against losses of Rs. 0.44 crore in H1FY2019.

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 37.46% in FY2019 and 27.93% in H1FY2020 (against 34.61% in H1FY2019), the hospitality segment continues to be loss making with operating loss of Rs. 2.35 crore in H1FY2020 against operating loss of Rs. 1.05 crore in H1FY2019 and operating loss of Rs. Rs. 1.38 crore for the full year FY2019.

Working capital intensive nature of business - Delays in receipt of payments from customers in the fertilizer segment has led 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 increased to 195% in as on 30th September 2019 against that of 113.23% as on 31st March 2019. Further, utilisation of working capital sanctioned limits remains high at ~93% of the sanctioned limits during the last 15 months ended October 2019.

Liquidity position - Stretched

Negative free cash flow from operations as well as high utilization levels of average of 93% of the total sanctioned limits during the last 15 months and minimal cash balance of Rs. 0.34 crore as on 30th September 2019, indicates stress in the liquidity profile. However, the company is expected to receive balance amount of Rs. 8.99 crore from exit of its investment from MOL Chem Limited by December 2019, also, the company is in the process of amicable settlement of the old outstanding common maintenance charges pertaining to A/B/C/D/E/F building for Rs. 3.35 crore, which shall provide some support to liquidity profile of the company in near to medium term. 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.

Rating sensitivities

Positive triggers – ICRA is likely to upgrade BAFRL's rating if the company demonstrates a turnaround in operations with sustained improvement scale of operation and profitability backed by improvement in capacity utilisation in fertilizer segment, higher occupancy level in resort segment and adequate books of inventory from real estate segment. Concurrently, the ability of the company to demonstrates efficient management of working capital and improvement in liquidity position, as it pursues its growth objectives remains critical.

Negative triggers – Negative pressure on BAFRL's rating could arise if, for reasons including further continued operational and net losses or weak profitability leading to lower cash accruals. Further delays in receipt of payment from MOL chem Limited will lead to stress on liquidity position and shall trigger a downward revision in the rating.

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 consolidated financial statements of Bharat Agri Fert And Realty Limited and its associate company MOL Chem Limited.

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.

The company has reported a net loss of Rs. 2.13 crore as per H1FY2020 unaudited statement against a net loss of Rs. 3.36 crore on an operating income of Rs. 45.49 crore reported for FY2019.

Key financial indicators

	FY2018 Audited	FY2019 Audited	H1FY2020 Unaudited
Operating Income (Rs. crore)	33.71	45.49	13.66
PAT (Rs. crore)	0.01	-3.36	-2.13
OPBDIT/OI (%)	7.13%	-0.58%	-2.30%
RoCE (%)	1.49%	-1.56%	-3.35%
Total Outside Liabilities/Tangible Net Worth (times)	0.46	0.58	0.44
Total Debt/OPBDIT (times)	7.27	-55.92	-22.72
Interest Coverage (times)	1.97	-0.12	-0.46
DSCR	3.41	0.76	-0.16

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
					22-November 2019	29-August 2019	05-April 2018	-	-
1	Cash Credit	Long-term	15.00	-	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
2	Letter of credit	Short-term	5.00	-	[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 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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
MOL Chem Limited	26%	Full consolidation

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