Bharat Agri Fert And Realty Ltd

April 05, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	15.00	[ICRA]BB (Stable); Assigned
Letter of Credits	15.00	[ICRA]A4+; Assigned
Total	30.00	

Rating action

ICRA has assigned a long-term rating of [ICRA]BB (pronounced ICRA double B) and a short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 30.00-crore[1] bank facilities of Bharat Agri Fert And Realty Ltd. (BAFRL or the company)[2]. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings factors 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. The ratings also take into consideration the company's comfortable capital structure marked by strong net worth and relatively low reliance on external debt.

The ratings, however, are constrained by the consistent decline in company's operating income in the last three years resulting from dwindling capacity utilisation levels in the fertilizers segment due to prevailing challenging conditions arising from delayed payment of subsidy by the Government coupled with increasing raw material prices. 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 company's weak profitability metrics as indicated net losses incurred in the last two years which has continued in 9M FY2018. This is mainly attributable to continued losses in fertilizer segment which contribute more than 60% of the total revenue of company in the last few years. Also, the share of revenue from the higher margin yielding real estate segment has contracted over the last few years. The ratings also take note of the 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 project. Any funding gaps may have to be met through external borrowing, thereby impacting the company's capital structure.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

The Stable outlook reflects 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 is able to ramp up its scale of operation particularly from the high margin yielding real estate segment which will lead to improvement in its profitability metrics coupled with improvement in working capital cycle through faster turnaround of unsold inventory in the real estate segment and receivables in the fertilizer segment, which will improve the overall financial risk profile of the company. Conversely, the outlook shall be revised to negative, if the company is not able to arrest the fall in scale of operation or any further deterioration in margins, or any further delay in collection of receivables as well as slow inventory turnaround, which would adversely impact the liquidity profile and weaken the financial risk profile.

Key rating drivers

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 - At present, operations of the company are diversified in real estate and fertilizer segment. Real estate contributed ~30-40% to total revenues while fertilizer segment contributes ~70-60% 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. In-addition, the company has recently acquired ~26% shareholding in a generic drug manufacturing company MOL Chem Limited with an objective to diversify in pharmaceutical segment. The company is also developing a wedding destination which would be spread across ~30 acres of land near its existing resort at Palghar. Having presence in Fertiliser and real estate segment, along with recent diversification into hospitality segment, the concentration risk on a particular sector remains low.

Comfortable capital structure marked by strong net worth and low external debt – The capital structure of the company remains strong as represented by gearing levels of ~0.2 times as on March 31, 2017 and ~0.1 times as on December 31, 2017. 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.

Strong asset base which can be monetized to ease liquidity pressure in case of any exigencies - 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 and can be monetized to ease liquidity pressure in case of any exigency.

Credit challenges

Modest scale of operation, consistent decline in OI during last three years - Operations of the company declined at an compounded annual growth rate (CAGR) of ~6% between FY2013 - FY2017, backed by decline in revenues from both real estate as well as fertilizer segment. Operations of the company has continued to remain weak during current year with cumulative achievement of operating income upto ~Rs. 23.91 crore till 9MFY2018.

Low profitability in fertilizer segment which is a key revenue contributor of the company - The company is primarily engaged into manufacturing of SSP fertilisers, however, profitability in fertilizer segment remined weak due to stiff competition and delays in subsidy receipts from government. However, healthy profits in real estate segment has led to overall sound profitability during FY2013-2015. Nevertheless, with the gradual decrease in turnover from real estate segment during last two years as well as continued weak profitability in fertilizer segment, OPM (operating profit margin) of the company remained weak at ~4.4% and ~5.5% during FY2016 and FY2017. Lower OPM coupled with high depreciation and interest cost has led to net losses of 0.4% and 1.4% during FY2016 and FY2017 respectively.

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 FY2023. 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, to a certain extent.

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 ~32% in FY2017 and ~36% in current year till December 2017, the resort continues to be loss making.

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 ~103% during FY2017 and ~159% during 9MFY2018.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Rating Methodology
Rating Methodology for Entities in Fertiliser Industry
Rating Methodology for Real Estate Entities
Rating Methodology for Entities in Hotel Industry

About the company:

Incorporated in 1958, the company made a public issue in 1962 and was listed on the Bombay Stock Exchange. BAFRL is primarily engaged in manufacturing NPK fertilisers, namely single super phosphate – powder and granulated forms. Since 2008, the company forayed into real estate development with one of its land banks at Manjiwada in Thane. During FY2008 - FY2012, the company completed phase I of the project with a saleable area of ~3.25 lakh sq. ft and completed phase II in FY2017 with a total saleable area of 0.60 lakh sq. ft. At present, the development of phase III of the project, with a total carpet area of 1.64 lakh sq. Ft, is ongoing. Further, during the last few years, the company ventured into the resort business using its existing land bank at Palghar district of Wada, Maharashtra. BAFRL's first resort, Anchaviyo, located at Palghar (Maharashtra), started its commercial operations in FY2016. Apart from fertilisers, the real estate and resort segments, the company recently entered the pharmaceutical segment via a 26% shareholding in MOL Chem Limited.

As per the provisional statement for 9M FY2018, the company reported a net loss of Rs. 0.4 crore on an OI of Rs. 25.1 crore, compared to a net loss of Rs. 0.6 crore on an OI of Rs. 44.7 crore in FY2017.

Key financial indicators

	FY2016 Audited	FY2017 Audited	9M FY2018 Provisional
Operating Income (Rs. crore)	52.6	44.7	25.1
PAT (Rs. crore)	-0.2	-0.6	-0.4
OPBDIT/ OI (%)	4.4%	5.5%	11.0
RoCE (%)	0.6%	1.0%	0.9%
Total Debt/ TNW (times)	0.3	0.2	0.1
Total Debt/ OPBDIT (times)	8.5	6.4	2.5
Interest Coverage (times)	3.1	1.6	3.0
NWC/ OI (%)	93.9%	102.1%	159.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sr. No.	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					April 2018	-	-	-
	Cash Credit	Long-term	15.00	-	[ICRA]BB (Stable)	-	-	-
	Letter of credit	Short-term	15.00	-	[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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	-	-	-	15.00	[ICRA]BB (Stable)
	Letter of credit	-	-	-	15.00	[ICRA]A4+

Source: Bharat Agri Fert And Realty Ltd.

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Srinivas Menon
+91 22 6169 3354
srinivas.menon@icraindia.com

Nandan Shah
+91 22 6169 3353
nandan.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
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Pune + (91 20) 6606 9999

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