August 02, 2022

Basant Agro-Tech (India) Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Term loan	10.86	20.53	[ICRA]BBB+(Stable); reaffirmed and assigned for enhanced amount
Long Term - Fund Based - Cash credit	99.50	117.00	[ICRA]BBB+(Stable); reaffirmed and assigned for enhanced amount
Short Term - Non-Fund Based	40.40	91.00	[ICRA]A2; reaffirmed and assigned for enhanced amount
Total	**150.76**	**228.53**	

**Instrument details are provided in Annexure I*

Rationale

The ratings consider Basant Agro-Tech (India) Limited's (BATIL or the company) 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 processor of hybrid and straight variety seeds. ICRA notes that its eight manufacturing plants in interior locations provide better access to the end-user markets and result in 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 business. ICRA also takes note of the ramp-up in the LABSA unit, although the contribution remains moderate.

The ratings, however, remain constrained by the low value addition involved in the manufacturing NPK fertilisers and intense competition in the fertiliser and seed sectors, leading to moderate operating profitability. However, the revenue and profitability had increased in FY2022 due to a sharp increase in realisation and product-raw material spread. The ratings are also constrained by the working capital-intensive nature of the business, marked by high debtor and inventory days, even though the debtor days moderated in FY2021 and FY2022. Moderate operating profitability, combined with moderately high working capital intensity, has resulted in sub-par return on investment indicators.

ICRA also notes the vulnerability of the company's scale of operations and profitability to agro-climatic conditions as well as the adverse fluctuations 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. Moreover, the company is undertaking a capex of Rs. 17-18 crore in FY2023, primarily to expand its SSP fertiliser capacity, exposing it to project execution risks even as the capital structure and debt metrics are expected to remain comfortable over FY2023-FY2025.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its established track record of operations and the extensive experience of the management in the fertiliser and seed segments, which should aid a steady financial performance. The capital structure and coverage indicators are also expected to remain comfortable.

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, who have 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 offer better access to consumer markets - BATIL's manufacturing plants are located 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 manufacturing plants' strategic locations also provide 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.

Comfortable capital structure and coverage metrics - The company's healthy net worth base and moderate debt levels resulted in a comfortable capital structure, reflected in a gearing of 0.50 times as on March 31, 2022. In FY2022, the company's revenues grew 39%, while the operating profit margin improved to 6.8% (5.7% in FY2021) and the net profit margin to 4.2% (2.7% in FY2021). However, despite the healthy net cash accruals, the higher working capital debt requirement on the back of the increase in raw material prices resulted in a slight decline in the debt coverage metrics. The total debt/OPBITDA increased to 2.4 times in FY2022 from 2.1 times in FY2021, even as coverage metrics like the interest coverage remained comfortable at 5.1 times (PY 4.5 times).

Credit challenges

Working capital intensive operations - Owing to the seasonal nature of its business, BATIL needs to maintain high inventory levels, evident from the inventory days of 144 in FY2021 and 174 FY2022. However, ICRA notes that the company offered discounts to those customers who made advance payments and higher cash and carry parties, which brought down the debtor days to 41 in FY2022 from 64 days in FY2021. Nevertheless, the working capital intensity continued to be moderately high with the net working capital (NWC)/OI at 28.1% in FY2022 (PY 28.3%).

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 the change 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 also remain susceptible to the agro-climatic conditions in the country as the demand for seeds and fertilisers in India is influenced by the monsoons due to the low irrigation coverage

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 variations in the subsidy amount and delays in receiving the same, apart from any other regulatory intervention on product prices.

Liquidity position: Adequate

BATIL's liquidity remains adequate, backed by cash accruals and availability of unutilised working capital limits and free cash balance of Rs. 1.1 crore as on March 31, 2022. The average working capital utilisation stood at 56% of its sanctioned limits during the 12-month period ended June 2022. The company has capex plans of ~Rs. 17-18 crore, mainly to expand the capacity of SSP fertiliser in FY2023, which will be funded by a mix of term loan and internal accruals. The debt repayment obligations are ~Rs. 2.72 crore in FY2023 and ~Rs. 2.78 crore in FY2024.

Rating sensitivities

Positive factors - ICRA may upgrade the ratings if the company is able to register a significant increase in the scale of operations while maintaining profitability and efficiently managing the working capital cycle. Further, total debt/ OPBIDTA < 2.3 on a sustained basis would be a positive for the ratings.

Negative factors – A significant decline in the scale of operations with the deterioration in profitability and working capital cycle could lead to rating downgrade. Further, total debt/ OPBIDTA > 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

About the company

BATIL manufactures and markets fertilisers, such as NPK compounds and SSP, under the Krishi Sanjivani brand in Maharashtra, Madhya Pradesh, Karnataka and Andhra Pradesh. It is also engaged in the R&D, processing and marketing of hybrid and high-yield variety seeds, manufacturing of LABSA etc. The company's facilities at Akola, Sangli and Jalgaon (all in Maharashtra), Hospet (Karnataka) and Neemuch (Madhya Pradesh), have a combined manufacturing capacity of 150,000 tonne per annum (tpa) of NPK granulated mixture, 339,000 tpa of SSP and 22,000 tpa of LABSA. The company is also engaged in generating alternative energy through wind mills and operating warehouses and cold storage facilities.

Key financial indicators

	FY2021	FY2022
Operating income (Rs. crore)	323.0	448.2
PAT (Rs. crore)	8.8	19.0
OPBDIT/OI (%)	5.7%	6.8%
PAT/OI (%)	2.7%	4.2%
Total outside liabilities/Tangible net worth (times)	1.1	1.4
Total debt/OPBDIT (times)	2.1	2.4
Interest coverage (times)	4.5	5.1

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 (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on July 25, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 02, 2022	Oct 20, 2021	Sep 10, 2020	Jul 05, 2019
1	Term loan	Long-term	20.53	17.62	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
2	Cash credit	Long-term	117.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
3	Non-Fund Based	Short-term	91.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Amount in Rs. crore

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term – Fund Based - Term loan 1	May 2021	8.25%	FY2028	4.13	[ICRA]BBB+ (Stable)
NA	Long Term – Fund Based - Term loan 2	Aug 2019	8.00%	FY2026	3.30	[ICRA]BBB+ (Stable)
NA	Long Term – Fund Based - Term loan 3	Apr 2022	8.00%	FY2029	7.00	[ICRA]BBB+ (Stable)
NA	Long Term – Fund Based - Term loan 4	July 2022	8.00%	FY2030	6.10	[ICRA]BBB+ (Stable)
NA	Long Term – Fund Based - Cash credit	NA	NA	NA	117.00	[ICRA]BBB+ (Stable)
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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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.

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