August 11, 2023

Basant Agro-Tech (India) Limited: Ratings reaffirmed

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+ (Stable); reaffirmed
Long-term - Fund based - Cash credit	117.00	117.00	[ICRA]BBB+ (Stable); reaffirmed
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 ratings reaffirmation factors in 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 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 ratings, however, remain constrained by the low-value addition involved in manufacturing NPK fertilisers and 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. The working capital intensity of the company increased in FY2023, owing to the availability of lower credit period from the rock phosphate suppliers during the year. Hence, the company's working capital borrowings rose sharply by the end of FY2023, coupled with elevated input prices and lower credit period. However, ICRA expects the working capital requirements to moderate in FY2024, driven by the softening of the input prices, which, along with stable contribution levels will lead to healthy free cash flow generation during the year. ICRA also notes the vulnerability of the company's scale of operations and profitability to agro-climatic conditions as well as any 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.

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 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. Additionally, the company benefits from being located close to the demand centres in terms of lower freight costs, which results in lower impact on the profitability due to no freight subsidy being provided by the GoI for SSP sales.

Comfortable capital structure and coverage metrics - The company's healthy net worth and moderate debt levels resulted in a comfortable capital structure, reflected in a gearing of 0.70 times as on March 31, 2023. In FY2023, the company's revenues grew by 23%, while the operating profit margin stood at 6.5% (6.8% in FY2022) and the net profit margin stood at 3.3% (4.2% in FY2022). However, despite the healthy net cash accruals, the higher working capital debt requirement on the back of increase in raw material prices, resulted in a slight moderation in the debt coverage metrics. The total debt/OPBITDA increased to 3.5 times in FY2023 from 2.4 times in FY2022, and interest coverage also reduced to 3.4 times (PY 5.4 times). However, with easing raw material prices and healthy supplies, working capital requirement is expected to moderate and with expectation of healthy free cash flows, the coverage metrics are expected to improve going forward.

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 151 in FY2023 and 174 in FY2022. ICRA notes that the company offers discounts to those customers who made advance payments and higher cash-and-carry parties. However, in FY2023, the advance from customers had reduced due to higher retail prices of fertilizers, debtors' days remained at 41 (same as the previous year) and creditors days reduced to 56 in FY2023 compared to 77 in FY2022. Consequently, the net working capital intensity increased to 33.1% in FY2023 compared to 28.1% in FY2022.

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 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.

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, in a scenario of 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 remains adequate, backed by healthy cash accruals and availability of unutilised working capital limits and free cash balance of Rs. 1.2 crore as on March 31, 2023. The average working capital utilisation stood at 70% of its sanctioned limits during the 12-month period ended June 2023. The debt repayment obligations are ~Rs. 2.7 crore in FY2024 and ~Rs. 2.5 crore in FY2025. ICRA expects healthy free cash flow generation in FY2024 resulting from low incremental working capital requirements, which would support the liquidity position of the company, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings, if the company registers 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 – Any 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

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 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 fertilizer. 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 – 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 SSP plant in Jalgaon, Maharashtra in FY2012. The company is also engaged in the business of generating power through wind turbine 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. The 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
Operating income	448.2	549.3
PAT	19.0	18.4
OPBDIT/OI	6.8%	6.5%
PAT/OI	4.2%	3.3%
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

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

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 of July 15, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 11, 2023	Aug 02, 2022	Oct 20, 2021	Sep 10, 2020
1	**Term loans**	Long-term	20.53	15.21	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
2	**Cash credit**	Long-term	117.00	-	[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

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+ (Stable)
NA	Long Term – Fund Based - Term loan 2	Aug 2019	9.40%	FY2026	3.30	[ICRA]BBB+ (Stable)
NA	Long Term – Fund Based - Term loan 3	Apr 2022	9.40%	FY2029	7.00	[ICRA]BBB+ (Stable)
NA	Long Term – Fund Based - Term loan 4	July 2022	9.40%	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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Varun Gogia
+91 98 7115 6542
varun.gogia1@icraindia.com

Adarsh Sule
+91 88 1889 4310
adarsh.sule@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries

+91-9354738909 (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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches