

August 25, 2017

## **Basant Agro Tech (India) Limited** (Revised)

### Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Long-term, fund-based facilities	70.00	[ICRA]BBB (Stable) reaffirmed
Term Loans	32.87	[ICRA]BBB (Stable) reaffirmed
Short-term, non-fund based facilities	50.00	[ICRA]A2 reaffirmed

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) assigned to the Rs. 70.00 crore<sup>1</sup> fund-based limits and Rs. 32.87 crore term loans of Basant Agro Tech (India) Limited ('BAIL' or 'the company')<sup>2</sup>. ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) assigned to the Rs. 50.00 crore non-fund based limits of BAIL. The outlook on the long-term rating is 'Stable'.

### Rationale

The ratings reaffirmation continues to favourably factor in the company's established presence in Maharashtra as a manufacturer of single super phosphate (SSP) and mixture nitrogen, phosphorus and potassium (NPK) fertilisers, with five plants located in interior regions, which provide better access to consumption markets. The company is also engaged in research and development, processing and marketing of hybrid and high-yield variety of seeds. The diverse product mix helps mitigate the impact of demand fluctuation in any particular segment. The ratings also favourably consider the long experience of the promoters in the fertiliser and seeds business.

The ratings remain constrained by the decline in fertiliser sale volumes (NPK and SSP) in FY2017 due to unfavourable agro-climatic conditions in the regions where the company has a major presence. The ratings also factor in the low value addition involved in the manufacturing of NPK mixture fertilisers and intense competition in the fertiliser and seeds segment, leading to low profitability. The ratings are also constrained by the high working capital intensity in the past, marked by higher debtor and inventory days. In the near term, the impact of the Goods and Services Tax (GST) rollout on the company's working capital requirement would be a key monitorable. ICRA also notes the vulnerability of the company's profitability to foreign currency fluctuations on account of imports of its key raw material, rock phosphate, for manufacturing SSP, and the absence of any natural hedge as well as the lack of a formal hedging policy.

The operating performance has been lacklustre in the past fiscal; thus improvement in the same, against the backdrop of agro-climatic conditions, raw material price fluctuations and competitive pressures in the industry would be key to sustain its credit profile.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

## Key rating drivers

### Credit strengths

- **Presence in Maharashtra, Karnataka and Madhya Pradesh; long experience of promoters in the fertiliser and seeds business** – The company is promoted by the Bhartia family who have long experience in the fertiliser and seeds industry. BAIL's 'Krishi Sanjivani' brand is well established in Maharashtra, Madhya Pradesh and Karnataka.
- **Location advantage with plants located in interior regions that facilitate better access to consumption markets** – The manufacturing plants are located in the interiors—at Akola (Maharashtra), Sangli (Maharashtra), Hospet (Karnataka) and Neemuch (Madhya Pradesh)—which ensures good rural coverage. Moreover, the company's plants at Sangli and Hospet are located near the Krishna and Tungabhadra rivers, respectively, which reduces the vulnerability of demand to monsoons to some extent.
- **Diverse product mix mitigates impact of demand fluctuation in any particular segment** - The company has a diversified product mix consisting of NPK and SSP fertilisers, as well as traditional and hybrid seeds that mitigate the impact of fluctuation in demand in a particular sector to some extent.

### Credit weaknesses

- **Demand outlook for fertilisers heavily tied to agro-climactic conditions and regulatory policies; sensitivity of revenue and profitability of the company to agro-climatic conditions witnessed in FY2017** - Revenues from NPK and SSP declined 24% and 17%, respectively, in FY2017 due to unfavourable agro-climactic conditions in the regions where the company has major presence and decline in raw material prices.
- **Vulnerability to raw material price fluctuations, which may not be passed on to customers adequately, relatively low value addition and competitive pressures in the industry**
- **High working capital intensity (42% in FY2017) due to high debtors and inventory levels** - The peak demand period for company's fertilisers is June–September (monsoons). Fertilisers being water soluble, the raw material as well as finished goods for the monsoon stock has to be prepared well in advance. As a result, inventory days as in March are generally high. Debtor days are also high due to high credit period extended to the dealers. In the near term, the impact of GST rollout on the company's working capital requirement would be a key monitorable.
- **Due to the absence of any natural hedge as well as lack of a formal hedging policy, the margins of the company remain exposed to any adverse currency fluctuations** - For manufacturing SSP, the company imports rock phosphate, exposing it to foreign currency fluctuation risk in the absence of any hedging mechanism.

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

### Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Fertiliser Industry](#)

### About the company

BAIL 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 research and development, processing and marketing of ~50 varieties of hybrid and high-yield variety of seeds. The company’s facilities in Akola, Sangli and Jalgaon in Maharashtra, Hospet in Karnataka, and Neemuch in Madhya Pradesh, have a combined manufacturing capacity of 150,000 tonnes per annum (tpa) of NPK granulated mixture, and 339,000 tpa of SSP. The company also has wind mills through which it generates a small amount of revenues through the sale of power.

During Q1 FY2018, the company reported an operating income (OI) of Rs. 92.05 crore and profit after tax (PAT) of Rs. 2.52 crore as against an OI of Rs.90.63 crore and PAT of Rs. 2.51 crore during Q1 FY2017.

### Key financial indicators (Audited)

Consolidated	FY2016	FY2017
Operating income (Rs. crore)	317.82	295.55
PAT (Rs. crore)	5.58	5.51
OPBDIT/ OI (%)	7.16%	7.22%
RoCE (%)	8.01%	7.74%
Total Debt/ TNW (times)	1.23	1.02
Total Debt/ OPBDIT (times)	5.41	5.00
Interest coverage (times)	1.86	1.96
NWC/ OI (%)	42%	42%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

*Note: FY2016 and FY2017 financials as per I-GAAP; Q1 FY2018 financials as per Ind AS*

**Status of non-cooperation with previous CRA:** Not applicable.

**Other information:** Not applicable.

**Rating history for last three years:**
**Table**

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015	
				August 2017	August 2016	July 2015	November 2014	
1	Fund-based facilities	Long-term	70.00	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	
2	Term Loans	Long-term	32.87	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	
3	Non-fund based facilities	Short-term	50.00	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	

**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](http://www.icra.in)

**Annexure-2**  
**Details of Instruments**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Long-term, fund-based facilities	-	-	-	70.00	[ICRA]BBB (Stable)
Term Loans	-	-	FY 2024	32.87*	[ICRA]BBB (Stable)
Short-term, non-fund based facilities	-	-	-	50.00	[ICRA]A2

\*Amount outstanding as on March 31, 2017 is Rs. 12.68 crore

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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.

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