Basant Agro-Tech (India) Limited

August 17, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	32.87	16.89	[ICRA]BBB (Stable); Re-affirmed
Long-term, Fund-based Facilities	70.00	70.00	[ICRA]BBB (Stable); Re-affirmed
Short-term, Fund-based Facilities	50.00	50.00	[ICRA]A2; Re-affirmed
Total	**152.87**	**136.89**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 16.89-crore[1] (reduced from Rs. 32.87 crore) term loans and the Rs. 70.00-crore fund-based facilities of Basant Agro-Tech (India) Limited (BAIL or the company) at [ICRA]BBB (pronounced ICRA triple B)[2]. ICRA has also reaffirmed the short-term rating assigned to the Rs. 50.00-crore non-fund based facilities of the company at [ICRA]A2 (pronounced ICRA A two). 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, Madhya Pradesh and Karnataka as a manufacturer of single super phosphate (SSP) and mixture nitrogen, phosphorus and potassium (NPK) fertilisers, with five plants located in interior regions, which provides better access to end-user markets. Better access to consumer markets results in lower freight costs as compared to competitors with plants located in coastal areas. The company is also engaged in research and development (R&D), processing and marketing of hybrid and high-yield variety of seeds. The ratings also favourably consider the long experience of the promoters in the fertiliser and seeds business. During FY2018, the company's operating profitability has improved, driven by the seed division's increasing revenue share from research variety seeds, which have higher margins as compares to notified varieties. Further, the company also adopted cost cutting measures supporting its profitability. Higher accruals along with lower working capital needs amid decreasing scale of operations have resulted in a slightly better capital structure of 0.9 time as on March 2018. Coverage indicators, however, continue to remain moderate.

The ratings remain constrained by the low value addition involved in the manufacturing of NPK mixture fertilisers and intense competition in the fertiliser and seeds segment, leading to moderate operating profitability. The ratings are also constrained by the working capital intensive nature of the business, marked by higher debtor and inventory days. Moderate operating profitability combined with high working capital intensity have resulted in sub-par return on investment indicators. The working capital intensity has further deteriorated with NWC/OI of 50% as on March 2018 on account of increased inventory levels to 149 days as on March 2018 from 119 days as on March 2017. ICRA also notes the vulnerability of the company's scale and profitability to agro-climatic conditions, raw material price fluctuations and any adverse regulatory changes in the fertiliser industry. The ratings are further constrained by the range-bound revenues of the past five fiscals. Further during FY2018, the company witnessed reduction in sale volumes (both in the fertiliser as well as in seed divisions) resulting in 12% decline in revenues. This is partly due to unfavourable agro-climatic

[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*

conditions in the regions where the company has a major presence. The lower volumes are also attributable to the implementation of the Goods and Services Tax (GST) from July 01, 2018, as well as the Direct Benefit Transfer (DBT) implementation in Q4 FY2018. Going forward, BAIL's ability to scale up its revenues along with better operating profitability and efficient management of its working capital will remain key to improving its return indicators and sustaining its credit profile.

Outlook: Stable

The Stable outlook reflects ICRA's expectations of BAIL continuing to benefit from its established presence in Maharashtra, Madhya Pradesh and Karnataka. ICRA notes the established track record of its promoters in the fertiliser and seed industry. The outlook may be revised to Positive if there is a meaningful improvement in scale of operations, profitability metrics, and working capital intensity, leading to reduction in debt levels and improved coverage metrics. The outlook may be revised to Negative in case of unfavourable agro-climatic conditions and regulatory policies affecting demand for BAIL's products, impacting its profitability and debt protection metrics.

Key rating drivers

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 seeds industry. The company enjoys an established presence in Maharashtra, Madya Pradesh and Karnataka with its five manufacturing facilities and an established network of dealers and distributors.

Location advantage with plants located in interior regions to facilitate better access to consumption markets – BAIL's manufacturing plants are located in the interiors—such as Akola (Maharashtra), Sangli (Maharashtra), Hospet (Karnataka) and Neemuch (Madhya Pradesh)—which ensures good rural coverage. Its strategic plant locations also provide better access to end-user markets, along with lower freight costs as compared to competitors with plants located in coastal areas. Moreover, two of 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.

Moderate capital structure – Despite lower sales, the company has been able to report improvement in margins on account of higher operating profits in the seeds division owing to better revenue mix. The share of the company's research variety of seeds, which have higher margins, has increased to ~70% in FY2018 from 40-45% in FY2017. In addition, during FY2018, the company has adopted cost cutting measures to achieve efficiencies that have supported improvement in operating margins to 8.4% in FY2018 from 7.2% in FY2017. Despite increased working capital intensity on account of increase in inventory levels, the debt level as on March 2018 reduced slightly, supported by repayment of term loans and lower scale of operations, resulting in lower working capital requirement in absolute terms. Along with modest accruals in FY2018, this has resulted in a slight improvement in capital structure with a gearing of 0.9 time as on March 2018.

Credit challenges

Decline in turnover – The company's turnover, which had been range-bound till FY2016, reported declined in FY2017 and FY2018 partly due to unfavourable agro-climatic conditions in the regions where the company has a major presence. The sales in FY2018 were also impacted by the implementation of GST from July 01, 2018, and DBT implementation in Q4 FY2018.

Working capital intensive nature of operations; moderate coverage indicators – BAIL's operations are working capital intensive in nature as it is required to maintain sizeable inventory to cater to the seasonal nature of its business. Furthermore, the company's debtor days remain high owing to the credit period offered to dealers and long delays in the realisation of subsidies from the Government. As on March 2018, the inventory levels went to 149 days from 119 days as on March 2017 due to lower than expected sales in Q4 FY2018. The same also resulted in increase in working capital intensity from 43% in FY2017 to 50% in FY2018. BAIL's debt protections indicators continue to remain moderate with TD/OPBDITA of 4.8 times and interest coverage of 2.0 times as on March 2018.

Scale and profitability susceptible to volatility in raw material prices and vagaries of agro-climatic conditions – BAIL's scale and profitability remains susceptible to agro-climatic conditions, regulatory policies and any adverse movement in raw material prices, which have impacted its performance in the past. Prices of key raw materials like rock phosphate and sulphuric acid have linkages with the global market and exhibit volatility with change in international prices as well as forex rates. In addition, BAIL needs to maintain adequate inventory due to the seasonality associated with the fertiliser and seed industry. Similar to any agriculture-based industry, BAIL's revenues are largely dependent upon the agro-climatic conditions of the country. The demand for seeds and fertilisers in India is generally influenced by the climatic conditions, i.e., the monsoons as irrigation coverage remains low.

Exposed to regulatory risk – The company's fertiliser business operates in a regulated environment. The selling prices of its products remain dependent on the subsidy allocated by the Government of India to the various nutrients. The company thus remains exposed to any sharp variation in the subsidy amount and delays in receipt of the same, apart from any other regulatory intervention on product prices.

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

Links to applicable criteria:

Rating Methodology for Entities in the Fertiliser Industry

Corporate Credit Rating Methodology

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 the R&D, processing and marketing of ~130 varieties of hybrid and high-yield variety of seeds. The company's facilities at 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 runs wind mills that generate negligible revenues through the sale of wind power. In FY2018, the company has started organic farming and has introduced products such as wheat grass powder, moringa leaf powder and barley grass powder. These are being sold through Patanjali as well as Amazon. Although the sales of the same are increasing, their revenue share remains insignificant at present.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	295.6	260.2
PAT (Rs. crore)	5.5	5.6
OPBDIT/ OI (%)	7.2%	8.4%
RoCE (%)	7.7%	8.1%
Total Debt/ TNW (times)	1.0	0.9
Total Debt/ OPBDIT (times)	5.0	4.8
Interest coverage (times)	2.0	2.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating August 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 July 2015
1	Term Loans	Long-term	16.89	7.04	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-Based Facility	Long-term	70.00	-	[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

**As on March 31, 2018*

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
NA	Long-term Loan	Sep-10	10.70%	FY2020	1.52	[ICRA]BBB (Stable)
NA	Long-term Loan	Oct-12	10.70%	FY2020	1.75	[ICRA]BBB (Stable)
NA	Long-term Loan	Mar-13	10.70%	FY2020	1.58	[ICRA]BBB (Stable)
NA	Long-term Loan	Mar-13	10.70%	FY2020	1.58	[ICRA]BBB (Stable)
NA	Long-term Loan	Mar-13	10.70%	FY2020	5.45	[ICRA]BBB (Stable)
NA	Long-term Loan	Feb-14	10.70%	FY2022	3.44	[ICRA]BBB (Stable)
NA	Long-term Loan	Feb-14	10.70%	FY2022	1.57	[ICRA]BBB (Stable)
NA	Long-term, Fund-based Facility	-	9.35%	-	70.00	[ICRA]BBB (Stable)
NA	Long-term, Fund-based Facility	-	-	-	50.00	[ICRA]A2

Source: Basant Agro-Tech (India) Limited

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About ICRA Limited:

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