

July 05, 2019

Basant Agro-Tech (India) Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	16.89	3.44	[ICRA]BBB (Stable); Re-affirmed
Long-term, Fund-based Facilities	70.00	70.00	[ICRA]BBB (Stable); Re-affirmed
Short-term, Non -Fund-based Facilities	50.00	50.00	[ICRA]A2; Re-affirmed
Total	136.89	123.44	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation favourably factors in the established presence of Basant Agro-Tech India Limited (BATIL) in Maharashtra, Madhya Pradesh and Karnataka as a manufacturer of single super phosphate (SSP) and mixture nitrogen, phosphorus and potassium (NPK) fertilisers. ICRA notes its six plants located in interior regions, which provides better access to end-user markets and results in lower freight costs as compared to competitors with plants 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 rating also favourably considers the extensive experience of the promoters in the fertilizer and seeds business as well as the improvement in the company's capital structure. BATIL reported a gearing of 0.6x and an interest coverage of 2.4x as on March 31, 2019 over that of 0.9x and 2x, respectively, as on March 31, 2018, driven by higher customer advances as well as better credit terms with its suppliers.

The ratings, however, remain constrained by the low value addition involved in the manufacturing of NPK mixture fertilisers and intense competition in the fertiliser and seeds sector, leading to moderate operating profitability. The rating is 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. 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. In FY2019, BATIL witnessed a decline in seed sales by ~12% due to shift in focus of the company away from low-margin open-pollination (OP) variety of seeds towards high margin own (research based) variety of seeds – this is reflected in decline in sales of OP variety seeds from ~Rs 81 crore in FY2018 to ~Rs 58 crore in FY2019. Apart from the above, erratic rainfall also had an impact on seed sales. Also, there was a decline in profitability due to increase in raw material prices and the impact of the Rupee depreciation in the fertiliser sector, aggressive pricing in research seeds and high competition in OP variety of seeds. The rating is further constrained by the range-bound revenues of the past five fiscals. Going forward, BATIL'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 BATIL 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 seeds industry. The outlook may be revised to Positive if there is a meaningful improvement in the 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 BATIL'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 with extensive experience in the fertiliser and seeds industry. The company enjoys an established presence in Maharashtra, Madhya Pradesh and Karnataka with its six manufacturing facilities and an established network of dealers and distributors. Also, the company's trademark brand "Krishi Sanjivani" is well recognized in the farming community.

Location advantage with plants in interior regions to facilitate better access to consumer markets – BATIL's manufacturing plants are located in interior regions—such as Kanheri, Akola (Maharashtra), Kaulkhed, Akola (Maharashtra), Jalgaon (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 in coastal areas. Moreover, two of the company's plants at Sangli and Hospet stand near the Krishna and Tungabhadra rivers, respectively, which reduces the vulnerability of demand to monsoons to some extent.

Moderate debt coverage metrics–The company reported a gearing of 0.6x and an interest coverage of 2.4x as on March 31, 2019 compared to that of 0.9x and 2x, respectively, as on March 31, 2018, driven by higher customer advances as well as better credit terms with suppliers. Although the debt coverage metrics improved in FY2019, the same continued to remain moderate.

Credit challenges

Decline in operating profitability – The company witnessed a decline in operating profitability in FY2019 due to rise in raw material prices and impact of the Rupee depreciation in the fertiliser sector, aggressive pricing in research seeds and high competition in the OP variety of seeds.

Working capital intensive nature of operations; moderate coverage indicators – BATIL's operations are working capital intensive in nature as it is required to maintain sizeable inventory for the seasonal nature of its business. Furthermore, the company's debtor days remain high owing to the credit period offered to its dealers and delays in the realisation of subsidies from the Government. Although the working capital intensity declined to ~39% as on March 31, 2019 compared to ~50% as on March 31, 2018, supported by higher credit period from suppliers and higher customer advances, the same remains on the higher side.

Scale and profitability susceptible to volatility in raw material prices and vagaries of agro-climatic conditions – BATIL'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, BATIL needs to maintain adequate inventory due to the seasonal nature of the fertiliser and seeds industry. Like any other agro industry, BATIL's revenues are largely dependent upon the agro-climatic conditions of the country. The demand for seeds and fertilizers in India is generally influenced by climatic conditions such as the monsoons, as irrigation coverage continues to remain low.

Exposed to regulatory risk –The company's fertiliser business operates in a regulated environment. The selling prices of its products remain dependent upon the subsidy allocated by the Government of India to 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.

Liquidity position

BATIL has a moderate liquidity profile supported by a cushion from undrawn sanctioned limits. The company reported an average 66% utilisation of its sanctioned limits over the past 12 months. With a term loan outstanding of Rs. 1.96 crore as on March 31, 2019, the company has modest repayments scheduled in FY2020.

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	The ratings are based on standalone financial statements of the issuer.

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 ~130 varieties of hybrid and high-yield variety of seeds. The company's facilities at Maharashtra's Akola, Sangli and Jalgaon, at Hospet in Karnataka and Neemuch in Madhya Pradesh, have a combined manufacturing capacity of 150,000 tonne per annum (tpa) of NPK granulated mixture, and 339,000 tpa of SSP. The company is also engaged in the business of generating alternative energy through wind mills and operating warehouses and cold storage facilities, both of which yield negligible revenues. In FY2018, the company started organic farming, introducing products such as wheat grass powder, moringa leaf powder and barley grass powder to its portfolio. These are currently 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)

	FY2018	FY2019
Operating Income (Rs. crore)	260.2	279.2
PAT (Rs. crore)	6.1	7.2
OPBDIT/OI (%)	8.4%	7.2%
RoCE (%)	8.1%	7.7%
Total Debt/TNW (times)	0.9	0.6
Total Debt/OPBDIT (times)	4.8	3.6
Interest coverage (times)	2.0	2.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
					Jul-19	Aug-18	Aug-17	Aug-16
1 Term Loans	Long-term	3.44	1.96	[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, 2019*

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	Feb-14	11.0%	FY2022	3.44	[ICRA]BBB (Stable)
NA	Long-term, Fund-based Facility	-	9.6%	-	70.00	[ICRA]BBB (Stable)
NA	Short-term, Non Fund-based Facility	-	-	-	50.00	[ICRA]A2

Source: Basant Agro-Tech (India) Limited

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