September 10, 2020

Basant Agro-Tech (India) Limited: Ratings reaffirmed and outlook on long-term rating revised to Positive, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long - Term – Fund-based Term Loan	03.44	10.86	[ICRA]BBB (Positive); Reaffirmed, Outlook revised from Stable
Long - Term – Fund Based/ Cash Credit	70.00	99.50	[ICRA]BBB (Positive); Reaffirmed, Outlook revised from Stable
Short - Term – Non-fund Based	50.00	40.40	[ICRA]A2; Reaffirmed
Total	**123.44**	**150.76**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook is on account of the improvement in the financial risk profile of Basant Agro-Tech (India) Limited (‘BATIL’ or ‘the company’) owing to its healthy cash accretion and net worth, along with decline in debt levels leading to improvement in debt coverage indicators. While the leverage of the company as reflected by Total debt/ OPBITDA declined to 3.1 times in FY2020 from 3.6 times in FY2019, with limited debt-funded capex and healthy accruals the debt metrics are expected to further improve over FY2021-FY2023.

The rating reaffirmation continues to factor in the established presence of the company in Maharashtra, Madhya Pradesh and Karnataka as a manufacturer of single super phosphate (SSP) and mixture nitrogen, phosphorus and potassium (NPK) fertilisers as well as processor of hybrid and straight variety seeds. ICRA notes that its eight manufacturing plants, stationed in interior locations, provide better access to end-user markets and result in lower freight costs against competitors with manufacturing plants in coastal areas. The ratings also favourably consider the extensive experience of the promoters in the fertiliser and seeds business as well as the improvement in the company’s capital structure. BATIL reported a gearing of 0.50 time and an interest coverage of 2.60 times as on March 31, 2020 vis-à-vis 0.60 time and 2.40 times, respectively, as on March 31, 2019.

The ratings, however, remain constrained by the low value addition involved in manufacturing NPK mixture fertilisers and the intense competition in the fertiliser and seeds sector, leading to moderate operating profitability. The ratings are also constrained by the working capital-intensive nature of the business, marked by high debtor and inventory days. Moderate operating profitability, combined with 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 adverse fluctuations in raw material prices and foreign exchange rates. The ratings further consider that being in the fertilisers business, the company’s operations remain exposed to regulatory risk. In FY2020, BATIL witnessed a marginal decline in seed sales by ~2% due to the shift in the company’s focus from low-margin, open-pollination (OP) variety of seeds towards high margin hybrid (research-based) variety of seeds. The same is reflected in the decline in sales of OP seeds to ~Rs. 44 crore in FY2020 from ~Rs. 58 crore in FY2019. Moreover, there was a decline in profitability due to aggressive pricing in research seeds and high competition in OP seeds. ICRA notes that the company is undertaking a capex of Rs. 17 crore over FY2021-FY2023, primarily for expanding its seed processing facilities and setting up a cold storage and LABSA plant. The capex is expected to be funded in a debt-to-equity ratio of 60:40. Though BATIL would be exposed to project execution risks, the capital structure and debt metrics are expected to improve over FY2021-FY2023 given the anticipated healthy accretion to reserves.

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 seeds industry. BATIL enjoys an established presence in Maharashtra, Madya Pradesh and Karnataka with its eight manufacturing facilities and an established network of dealers and distributors. Further, the company's trademark brand, 'Krishi Sanjivani', is well recognised in the farming community.

Location advantage with plants in interior areas to facilitate 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 end-user markets, along with lower freight costs against 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 monsoons to some extent.

Moderate debt coverage metrics – The net worth base of the company remains healthy, which coupled with moderate debt levels resulted in a comfortable capital structure as reflected by a gearing of 0.50 time as on March 31, 2020. Further, led by healthy net cash accruals and decline in debt levels, the company registered improvement in its debt coverage metrics as reflected by Total debt/ OPBITDA decreasing to 3.1 times in FY2020 from 3.6 times in FY2019.

Credit challenges

Working capital intensive nature of operations – Owing to the seasonal nature of its business, BATIL needs to maintain high inventory levels as reflected by inventory days at 176 and 128 in FY2019 and FY2020, respectively. Moreover, owing to the credit period offered to its dealers and delays in the realisation of subsidies from the Government, the debtor days too have remained high at 88 and 94 in FY2019 and FY2020, respectively. This has translated into high working capital intensity with net working capital (NWC)/operating profitability (OPBITDA) at 39% and 37% in FY2019 and FY2020, respectively.

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 have linkages with the global market and exhibit volatility with change in international prices as well as foreign exchange rates. Since BATIL needs to maintain adequate inventory due to the seasonal nature of the fertiliser and seeds industry, the stocked inventory is exposed to inventory price risk, given the volatility in raw material prices. Moreover, BATIL's scale of operations and profitability also remain susceptible to agro-climatic conditions in the country since the demand for seeds and fertilisers in India is generally influenced by the monsoons, as irrigation coverage continues to remain low.

Exposed to regulatory risk – Since BATIL operates in a highly regulated industry, the selling prices of its products are dependent upon 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 receipt of the same, apart from any other regulatory intervention on product prices.

Liquidity position: Adequate

BATIL's liquidity profile is expected to remain adequate with positive fund flow from operations generated over the last three years and a buffer of Rs. 85.69 crore in the form of undrawn working capital limits as on June 30, 2020 (average utilisation of ~61% during the 14-month period ending June 2020). BATIL had external term loans of Rs. 2.43 crore and a free cash balance of Rs. 1.01 crore on its books as on March 31, 2020. ICRA does not foresee any concerns on liquidity, given the comfortable cushion in the form of undrawn working capital limits and limited burden of long-term debt repayments in the near term.

Rating sensitivities

Positive triggers – The ratings may be upgraded if the company is able to strengthen its debt coverage ratios with Total debt/ OPBITDA below 3.0 on a sustained basis.

Negative triggers – The outlook may be revised to Stable if there is more than anticipated decline in sales and profitability and any deterioration in the working capital cycle, which affect the company's liquidity profile.

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	Standalone

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 of seeds. 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, and 339,000 tpa of SSP. The company is also engaged in generating alternative energy through wind mills, and in operating warehouses and cold storage facilities.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisionals)
Operating Income (Rs. crore)	260.23	279.18	285.94
PAT (Rs. crore)	6.08	7.22	9.39
OPBDIT/OI (%)	8.37%	7.17%	6.83%
PAT/OI (%)	2.34%	2.59%	3.28%
Total Outside Liabilities/Tangible Net Worth (times)	1.44	1.45	1.15
Total Debt/OPBDIT (times)	4.77	3.65	3.09
Interest Coverage (times)	2.03	2.38	2.55
DSCR	1.27	1.81	2.60

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed Source: Financial statements of BATIL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					10-Sep-2020	05-Jul-2019	17-Aug-2018	25-Aug-2017
1	Term Loan	Long Term	10.86	1.80	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund Based/ Cash Credit	Long Term	99.50	-	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-fund based limits	Short Term	40.40	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Amount in Rs. crore

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	Term Loan	FY2017	NA	FY2024	10.86	[ICRA]BBB (Positive)
NA	Fund Based Limits	NA	NA	NA	99.50	[ICRA]BBB (Positive)
NA	Non-fund based limits	NA	NA	NA	40.40	[ICRA]A2

Source: BATIL

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Analyst Contacts

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Prashant Vasisht
+91 98 1831 6222
prashant.vasisht@icraindia.com

Viraj Kadwadkar
+91 22 6114 3457
viraj.kadwadkar@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999