

BR Agrotech Limited

January 03, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	35.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	4.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	39.00 (₹ Thirty-nine crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of BR Agrotech Limited (BRAL) derives strength from the long track record of the promoters in the pesticides industry and integrated operations of the group marked by its presence in the entire value chain of the pesticides. The ratings further factor in its reputed customer base. The ratings also factor in the comfortable financial risk profile of the company marked by strong capital structure and growing scale of operations. The ratings are, however, offset by its working capital-intensive nature of its operations, highly regulated and competitive nature of the pesticides industry and vulnerability of the operations to agro-climatic conditions.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the total operating income (TOI) by more than ₹1,000 crore without impacting its profitability margins on a sustained basis, while maintaining its comfortable leverage and debt coverage indicators.
- Increase in its profitability with PBILDT margins at 10% or more on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant increase in the working capital cycle on a sustained basis.
- Deterioration in its capital structure on a sustained basis (overall gearing of more than 0.75x in the year going forward).

Outlook: Stable

Detailed description of the key rating drivers

Key rating strengths

Long track record of management in the pesticides industry and resourceful promoters: Being part of the Bharat group, BRAL benefits from the long track record of operations and experienced management of the group. The Bharat group is one of the leading manufacturers of technical grade pesticides in India and has been engaged in the operations of manufacturing and selling of pesticides with promoter's experience spanning more than four decades. S.N. Gupta, Chairman and Managing Director (MD) of BRL, is a postgraduate in economics and has vast experience in the fields of international business, overall marketing strategy and corporate planning besides the pesticides industry. M.P. Gupta, whole-time director of BRL and BRAL, is a graduate in commerce and has more than 38 years of experience. He looks after banking, finance, taxation, accounts and administration. Furthermore, R.P. Gupta, whole-time director of BRL and managing director of BRAL, has over 30 years of experience in the agrochemical industry. He looks after research and development (R&D), production and project execution activities. The directors of the group are supported by a team of professionals with rich experience in varied spheres of business.

Integrated operations offering diversified product mix: BRAL is primarily engaged in the manufacturing of formulations and PET bottles. BRAL is in contract (toll) manufacturing and caters to the institutional customers like Godrej Agrovet Limited, Indofil, IFFCO-MC, Mahindra Summit Agriscience Limited (rated 'CARE BBB+; Stable/ CARE A2'), Sumitomo Chemical India Limited, Dhanuka Agritech Limited, Sinochem, Gharda, etc. During FY22 (refers to the period April 1 to March 31), formulations accounted for 68.86% (PY: 71.78%), PET bottles accounted for 12.86% (PY: 10.33%) and technical accounted for 18.28% of the gross income of the company. The group has its presence throughout the value chain, right from manufacturing of technical

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

grade pesticides up to the formulations by way of forward integration. BRL is majorly in the manufacturing of technical grade pesticides and the sales of technical grades of the company is made to BRAL, which uses it as a raw material for the manufacturing of formulations.

Reputed client base with long-standing relation: BRAL majorly supplies its product in the domestic market, which accounted for around 98% of the total sales of BRAL in FY22 (97% in FY21). The company is dealing with esteemed customers, including Sumitomo Chemical India Limited, S V P Industries Limited, and Indofil Industries Limited and exports to countries, including Egypt, Ethiopia, Iran and Taiwan. BRAL has 2% of import dependency with 98% domestic raw material purchase in FY22. Furthermore, the group has a large institutional customer base in the domestic market as well as in the international market with long-standing relationship and low client concentration risk.

Comfortable financial risk profile: During FY22, BRAL registered 11% growth y-o-y in its top line, which is primarily due to higher volumes sold post commissioning of the Panoli facility, and it is expected that the company will cross the top line of ₹800 crore in FY23. The profitability of BRAL stood a par level in FY22 to 9.80% (PY: 9.95%). In H1FY23 (refers to the period from April 01 to September 30), BRAL recorded ₹569.36 crore sale and PBILDT margins stood at 5.86% in H1FY23. Due to intense competition in the sector at times, BRAL has to bear the intermittent hikes in the cost at times and is able to pass on the increased cost only with a lag. Furthermore, BRAL did a trade deal in H1FY23, which attracted lower margins and hence resulted into lower operating margins though on enhanced scale of operations. The capital structure of the company continues to remain comfortable marked by working capital borrowings of ₹3.97 crore with nil long-term debt as on March 31, 2022. The interest coverage of the company also improved to 36.64x in FY22. The total debt to gross cash accruals (TD/GCA) ratio of the company stood at 0.10x in FY22.

Key rating weaknesses

Working capital intensive nature of operations: The pesticide industry requires high working capital investment due to high inventory and long credit period. The commoditised nature of the products and seasonality factor (high demand during crop-sowing seasons) makes the operations of the BRAL highly working capital intensive. Around 60% sales for the whole year is done on the first half of the year and most of the sales are done on a credit of around 90-120 days to its customers, resulting in high debtors in the first half of the year. This results in high working capital requirement by the group in first half of the year as compared with second half of the year. Furthermore, due to the seasonal demand for pesticides, the company is required to stack up variety of products as inventory in advance of the season resulting in high inventory holding period, which is a common phenomenon across the pesticide industry. This increases the inventory holding cost. Furthermore, since pesticides are the last link in the agricultural operation, after having invested in seeds, fertilizers, etc., the farmers have little surplus money for purchasing pesticides. Therefore, providing credit is necessary to stimulate demand. Also, although BRAL receives credit period of 90 days from its suppliers, however, the company makes early payments to its suppliers on account of early payment discount. Thus, due to such intrinsic nature of business, the group's working capital requirement continues to remain high. During FY22, the operating cycle of the company stood at 93 days (PY: 90 days). The creditor days increased from 51 days in FY21 to 69 days in FY22. The total creditors increased from ₹56.90 crore as on March 31, 2021 to ₹129.75 crore as on March 31, 2022. BRAL has a high collection period as it provides a credit period of 90-120 days to its domestic customers. The trade receivables of the company increased from ₹117.84 crore as on March 31, 2021 to ₹181.86 crore as on March 31, 2022 and further increased to ₹355.87 crore as on September 30, 2022. The same has been on account of sales done in H1FY23.

Highly dependent upon monsoon and climatic conditions: The pesticide industry derives its sales from the agriculture sector, which is highly dependent upon monsoons as well as incidences of fungal/pest attack on crops. The sales and profitability of the pesticides industry depends largely on the prevalent agro-climatic conditions. However, BRAL has its presence spread across all states as well as in multiple markets (domestic and international), which reduces the group's dependence on climatic conditions of a particular region.

Highly regulated and competitive nature of operations: The pesticides industry is marked by heavy fragmentation with the absence of any player having sizeable market share. The intense competition leads to competitive pricing and lower margins. Traditionally, the Indian players have concentrated on marketing generic and off-patent products with little expenditure on R&D, while MNCs have focused on developing patented molecules. The pesticides are regulated products and require prior registration with the relevant governing authorities in each country before they are allowed to be sold. Furthermore, the industry also faces regulatory risk due to prohibited usage of certain molecules. As per management, BRAL deals in Atrazine, Butachlor, Chlorpyrifos, Deltamethrin, Pendimethalin, Sulfosulfuron, and Thiophanatemethyl, out of the 27 agrochemicals proposed to be banned by the government, which together contribute around 6%-8% of BRAL's TOI. These sales are domestic and the agrochemicals have no international exposure. So far, none of the agrochemicals in which BRAL deals in is banned or affected as discussed with the management.

Liquidity: Adequate

The liquidity of the company is adequate. BRAL operates in a highly working capital-intensive industry marked by high inventory holding days and elongated collection period. Furthermore, although BRAL receives credit period of 90 days from its suppliers, however, the company makes early payments to its suppliers on account of early payment discount, resulting in average creditor period of around 69 days. BRAL has only working-capital borrowings of ₹3.97 crore with nil long-term debt repayment obligations as on March 31, 2022. During the 12-month period ending October 2022, average working capital utilisation at maximum level stood comfortable at 35.43%. As the products being sold by the company are seasonal, the utilisation of the working capital increases from the month of April to September. However, as the company starts receiving payments from the debtors, the working capital utilisation decreases during the months from October to March. The current ratio stood comfortable at 2.06x in FY22.

Analytical approach: Standalone. The ratings, however, factor in the linkages with the group company, Bharat Rasayan Ltd (rated 'CARE AA-; Stable/ CARE A1+') with common name and promoters, and strong business and operational linkages.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Pesticide Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

BR Agrotech Limited (BRAL) was incorporated in February 2000 and is a part of the Bharat group, which comprises the flagship entity being Bharat Rasayan Limited (rated 'CARE AA-; Stable/ CARE A1+'). BRAL is engaged in the manufacturing of formulations and pet bottles at its plants located in Kathua, J&K and Kala Amb, Himachal Pradesh, with a total installed capacity of 60,000 MT/KL per annum. The bottling plant caters to packaging of products in pesticides and allied industries. The client list in bottling operations include companies in food, pickle, liquor, pharmaceutical, confectionery, pesticides, liquid soaps and shampoo industries.

During FY22, the income from formulations accounted for 68.86% (PY: 71.78%), sale of technical accounted for 18.28% (PY: 10.96%) and PET bottle sales accounted for 12.86% (PY: 10.33%) of its gross sales. Nearly 35% of the topline comes from contract manufacturing and balance is direct bulk sale to institutional customers. Furthermore, BR Agrotech has around 279 domestic registrations and 24 international registrations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	483.53	537.84	569.36
PBILDT	48.13	52.73	33.36
PAT	33.20	32.52	21.55
Overall gearing (times)	0.09	0.02	NA
Interest coverage (times)	35.39	36.64	31.77

A: Audited; UA: Un-Audited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4
Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	35.00	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	4.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	35.00	CARE A+; Stable	-	1)CARE A+; Stable (21-Dec-21)	1)CARE A+; Stable (30-Dec-20)	1)CARE A+; Stable (27-Dec-19)
2	Non-fund-based - ST-BG/LC	ST	4.00	CARE A1+	-	1)CARE A1+ (21-Dec-21)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (27-Dec-19)
3	Commercial paper- Commercial paper (Carved out)	ST	-	-	-	-	1)Withdrawn (24-Dec-20)	1)CARE A1+ (27-Dec-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA
Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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