GSFC Agrotech Limited

October 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	49.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long term / short term bank facilities	20.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed
Total bank facilities	**69.00 (₹ Sixty-nine crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of GSFC Agrotech Limited (GATL) continues to derive strength from its strong parentage of Gujarat State Fertilizers & Chemicals Limited (GSFC; rated CARE AA+; Stable/ CARE A1+) which has an established track record of operations in the fertilizer industry and strong financial risk profile. The operational and managerial support which the company receives from GSFC and its access to GSFC's various fertilizer products along with its shared brand name with no significant inventory holding risk further underpins its ratings. Furthermore, the ratings take cognizance of GATL's established distribution network, engagement in various government sponsored projects and better prospects for organized retail in the fertilizer industry post implementation of direct benefit transfer (DBT).

The ratings, however, continue to be constrained due to GATL's moderate scale of operations and thin profitability inherent to trading nature of its operations along with risk associated with geographically concentrated operations in Gujarat, exposure to the vagaries of monsoon and its high working capital intensity due to seasonal nature of operations.

Rating sensitivities

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

- Improvement in scale of operations marked by Total Operating Income (TOI) of more than ₹1,000 crore on a sustained basis
- Improvement in profitability margins marked by PBILDT margin above 5% on sustained basis along with TOL/TNW below unity
- Expansion of operations to other states to cater to a geographically diversified clientele
- Diversification of its sourcing by way of addition of products of other fertilizer companies in its product portfolio

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

- Moderation in credit profile of its parent, GSFC
- Dilution in GSFC's stance to provide timely need-based financial and operational support to it; or GATL not remaining a majority-owned subsidiary of GSFC
- Deterioration in capital structure marked by overall gearing beyond 1.50 times
- Decline in profitability margins marked by PAT margin of less than 1% on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Strong parentage of GSFC which has an established track record of operations in fertilizer industry: GATL's promoter viz. GSFC, incorporated in 1962, is a joint sector company promoted by the Government of Gujarat (GoG). GoG, through its undertaking Gujarat State Investment Limited (GSIL), owns 37.84% of the paid-up capital of GSFC. The chairman and managing director of GSFC have been appointed by GoG. It has an established track record of operations in fertilizers and industrial chemical products in India. In fertilizers, its product portfolio includes di-ammonium phosphate (DAP), urea, ammonium sulphate (AS) and ammonium phosphate sulphate (APS) etc. Sale of fertilizers contributes around 70% to GSFC's TOI.

Access to various fertilizers manufactured by GSFC along with operational and managerial support: GSFC sells its fertilizer products under the brand name 'Sardar' which has a significant presence in Gujarat and is also well recognized in other states including Maharashtra, Madhya Pradesh, Punjab, Rajasthan, Odisha, Uttar Pradesh, etc. GATL, being a wholly owned

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

subsidiary of GSFC, has access to the fertilizers and agro-chemicals manufactured by GSFC, which are sold through its retail outlets. GATL leverages on the brand name of GSFC for sales across its retail outlets wherein GSFC's products contribute more than 90% to GATL's total sales.
Furthermore, out of total trading sales of GATL, majority sale comprises of price-controlled fertilizers whereby it does not carry price risk on its inventory as any variation in retail price post its purchase by GATL is borne by the fertilizer manufacturer. GSFC has also deputed its key officials across the key managerial positions of GATL which imparts greater control of GSFC over the operations of GATL.

Established distribution network: GATL was established in FY12 (refers to the period April 1 to March 31); however, it had largely no operations till end-FY17 until it was revived with an idea to transfer the existing retail distribution set-up of GSFC to GATL to have a more focused approach for retail business. GSFC had established 200 outlets for retail distribution till FY17; which was increased to 284 outlets by GATL as on August 31, 2022. GATL has a plan to further expand its retail network in Gujarat as well as in other states. Through these retail outlets, GATL provides agro-inputs at reasonable prices and provides various agronomic services and innovative amenities supplemented by regular farmer education program.

Involvement in many farm-based GoG sponsored projects facilitating penetration of GSFC's products: GATL carries out various farm-based projects for GoG since GSFC, its parent, is a GoG promoted entity. GATL is currently engaged in projects such as agro diversification project of tribal development department, cultivation of tissue culture (TC) plant project in tribal region of Gujarat, tissue culture entrepreneur project wherein GoG provides subsidy to farmers to set up their own net house for secondary hardening of tissue culture primarily hardened by GATL and thus generate income, AGR-2 scheme wherein GoG provides assistance in farm mechanization, Agriculture Diversification Based Yield Enhancement Project, etc. All these schemes provide impetus to the growth of GATL's business and increases the penetration of GSFC's products. Moreover, GATL has been the implementing agency for more than five years.

Better prospects for organized retail in fertilizer industry after implementation of DBT: Fertilizers are subsidized products wherein the proportion of subsidy in the total sales realization varies from 25% to 90% for different products with the highest being in urea and lowest in P&K fertilizers. This makes the timely receipt of subsidy very crucial for the liquidity profile of fertilizer manufacturers.
Prior to implementation of DBT, the government used to release around 85% of subsidy to the fertilizer manufacturers based on receipt of fertilizers in the districts through authorized dealers and the balance around 15% subsidy payment was being released when the state government acknowledged the actual sale of fertilizers for agriculture purpose. However, under DBT, 100% subsidy is released only when the retailers sell the fertilizers to farmers through Aadhar-enabled point of sale (PoS) device.
The DBT system was implemented across India in a phase-wise manner starting from September 2017 and rolled out pan-India from February 2018. Now, the government is planning to implement second phase of DBT and to explore the option of directly transferring the subsidy to farmer's account which could be beneficial for the fertilizer manufacturers. To ensure efficient and speedy recovery of subsidy, there is a demand for organized retailer in the fertilizer industry post DBT implementation which is expected to augur well for companies like GATL.

Liquidity: Adequate
GATL has adequate liquidity characterized by sufficient expected cash accruals during FY23 vis-à-vis nil debt repayment obligations. It had cash and cash equivalents of ₹18.37 crore as on March 31, 2022. Currently, the company is managing its working capital requirement by way of available credit period from GSFC. Going forward, with the expected growth in its scale of operations along-with expected expansion of its retail network, GATL has proposed to avail working capital limits for which company has sufficient headroom. Additionally, being a wholly owned subsidiary of GSFC, there is an implicit financial support from GSFC as and when required which further underpins its liquidity.

Key Rating Weaknesses
Moderate scale of operations with thin profitability due to trading nature of operations: GATL's scale of operations continue to remain moderate marked by TOI of ₹468.01 crore and ₹116.80 crore during FY22 and Q1FY23 respectively. Also, its profitability margins, marked by PAT margin of 1.63% during FY22, continue to remain thin which is inherent in trading business.

Geographically concentrated operations: Out of GATL's total retail outlets, around 273 outlets are spread across Gujarat while 11 are in Rajasthan which leads to geographically concentrated operations for GATL. During the last two years ended FY22, the company had deferred the expansion plan of its retail network amidst outbreak of covid-19 pandemic. However, with gradual improvement in the pandemic scenario, company has resumed its expansion plan. Accordingly, its geographical concentration risk is expected to reduce gradually in the medium term.

High working capital intensity due to seasonal nature of operations: Sale of fertilizers is high during the sowing season which starts from July-August for the Kharif crop before the onset of monsoon and in October-November for the Rabi crop while the sale of fertilizers remains low during the balance period of the year. Retailers like GATL start procuring fertilizers during the non-peak season to maintain sufficient inventory before the onset of peak season which translates into high seasonal inventory holdings and thus leads to high working capital intensity. Nevertheless, GSFC offers sufficient credit period to GATL to manage its working capital cycle.

Exposure of business to the vagaries of monsoon: The sale of fertilizers is heavily dependent on adequacy and spread of monsoon since below normal monsoon leads to less sowing and thus decreases the demand of fertilizers. Furthermore, since GATL has its retail outlets majorly in Gujarat; its scale of operations is exposed to the vagaries of monsoon in Gujarat.

Analytical approach: Standalone while factoring linkages with its parent GSFC
GATL is a wholly owned subsidiary of GSFC having strong business synergies with the operations of GSFC. It also receives need based operational, financial and managerial support from GSFC.

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Rating methodology - Wholesale trading
Rating methodology - Notching by factoring linkages in ratings
Financial ratios - non-financial sector
Liquidity analysis of non-financial sector
Criteria for short term instruments

About the company

Incorporated in April 2012, GATL is a wholly owned subsidiary of GSFC. GATL is engaged in trading of fertilizers, agro products and providing agro-based services such as soil and water testing at its laboratory in Vadodara, Gujarat. Major products marketed by GATL include fertilizers, protein-based growth promoters, liquid bio-fertilizers, tissue culture plants, seeds and water-soluble fertilizers. GATL also has tissue culture production laboratories certified by Department of Biotechnology (DBT) with the total capacity of 40 lakh plants per annum. GATL has retail outreach through its 284 operational retail outlets majorly spread across the state of Gujarat.

Brief Financials of GATL - Standalone (₹ Crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	451.71	468.01	116.80
PBILDT	9.49	4.06	NA
PAT	10.80	7.65	NA
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	NM	NM	NA

A: Audited; UA: Unaudited; NM: Not Meaningful; NA: Not Available.
Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments: Not applicable

Complexity level of the various instruments rated for this company: Please refer to Annexure-3

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		-	-	-	49.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	20.00	CARE A; Stable / 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	49.00	CARE A; Stable	-	1)CARE A; Stable (05-Oct-21)	1)CARE A; Stable (29-Sep-20)	1)CARE A; Stable (09-Oct-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	20.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (05-Oct-21)	1)CARE A; Stable / CARE A1 (29-Sep-20)	1)CARE A; Stable / CARE A1 (09-Oct-19)

*Long term/Short term.

Annexure-3: 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 - LT/ ST-BG/LC	Simple

Annexure-4: Bank lender details for this company

To view the lender-wise details of bank facilities, please click here.

Note on the 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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