Best Agrolife Limited

October 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	235.00	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Assigned
Total Bank Facilities	**235.00 (₹ Two Hundred Thirty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Best Agrolife Limited derive strength from the vast experience of the promoters in the industry along with long track record of operations, integrated operations of the group with diversified product portfolio and wide distribution network. The ratings further derive strength from the consistent growth in scale of operations at compounded annual growth rate of ~23% over the past four fiscals ending FY22 (refers to period from April 01 to March 31), improvement in operating margins with increased focus on specialized products as compared to generic products and also comfortable capital structure as characterized by overall gearing of below 1x as on March 31, 2022. The ratings are however, constrained by stretched working capital cycle along with exposure to agro-climatic conditions and highly competitive nature of the agro-chemicals industry.

Rating sensitivities

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

- Improvement in scale of operations beyond Rs 1600 crores along with sustained operating margin above 12.50%.
- Improvement in capital structure leading to overall gearing below 0.50x.

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

- Reduction in its ROCE below 25% on sustained basis.
- Deterioration in its collection and inventory period leading to increase in its working capital cycle above 110 days.

Detailed description of the key rating drivers

Key rating strengths

Established track record of operations and experienced management

Mr. Vimal Kumar is the managing director and has vast experience in the agrochemical industry for more than 20 years and has completed his education in agriculture from Kurukshetra University. He oversees the strategy, management, development, integration and overall business growth. He is ably supported by Mr Raajan Alawadhi who has completed Bachelor of Agriculture (Hons.) from CCS HAU followed by diploma in Agri-business Management from DBS, Dehradun, he is responsible of managing the company's strategic alliances, marketing and branding strategies. They are ably supported by the group of experienced management having long track record of operations in agrochemical industry.

Diversified product portfolio with growing distribution network

The company has well-diversified product profile, which includes insecticides, pesticides, herbicides, plant-growth regulators (PGR) and biocides. The company currently has licence of over 250+ formulations registered with Central Insecticide Board (CIB). PGRs and bio fertilizers have higher profit margin compared to traditional chemicals. Sales from top-5 generic agro-chemicals stood at 11.64% of total sales during FY22 (PY: 13.48%) while that from hybrid agro-chemicals stood at 17.72% of total sales during FY22 (PY: 24.62%). Going forward the company will focus more on trading and manufacturing of specialized agro-chemicals as they have better margins and also trading in B2C sales.

The company has been increasing its distribution network across various regions of the country and has added additional depots in UP, West Bengal, Telangana and Andhra Pradesh. Company has wide distribution network with more than 3600 distributors and also has 18 depots as on March 31, 2022. Along with the increased distribution network, the company has also been concentrating on field promotions to reach out to farmers.

Consistent growth in scale of operations along with improvement in profitability margins

The company started expanding from FY18 onwards and its scale of operations has been on an increasing trend with a growth of ~23% CAGR over the past 4 years from Rs 628.21 crore in FY18 to Rs 1453.96 crore in FY22. During FY22, the total

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

operating income of the company increased by about 15% from Rs 1259.51 crore in FY21. The same has been largely on account of strong and growing demand along with improvement in sales realization.
The PBILDT margin of the company improved substantially and stood at 12.65% in FY22 (PY: 7.17%). The same has been owing to company's increased focus on specialized product which attracts better margins as compared to generic products whereby, the sale of generic products have remained similar in the past two years while that from specialized products increased from Rs 245.80 crore in FY20 to Rs 726.98 crore in FY22. Further, the PAT margin also improved and stood at 7.76% in FY22 (PY: 3.96%).
Current year performance: During Q1FY23 (refers to period from April to June), the company reported total operating income of Rs.464.07 crore (PY: Rs.345.37 crore), thereby recording y-o-y growth of ~34%. Further, the PBILDT margin improved by 360 bps and stood at 14.27% during Q1FY23 (Q1FY22: 10.67%) with increase in scale of operations and change in product-mix.

Comfortable capital structure along with solvency indicators

The capital structure of the company is comfortable as marked by low overall gearing of 0.91x as on March 31, 2022 improving from 1.12x as on March 31, 2021 mainly on account of increase in net worth base of the company. Large part of borrowings is to fund the working capital requirements due to increase in the inventory as the company has set up a new manufacturing unit in Surajpur, Noida for which the company needs to maintain inventory, the company has availed the term loan for setting up the manufacturing unit which will be used mainly for the manufacturing of bulk formulations. The interest coverage ratio remains comfortable at 10.99x for FY22 (PY: 12.14x) due to low interest cost and high operating profit. Total debt by GCA remains moderate at 2.36x as on March 31, 2022 deteriorating from 0.86x the previous year.

Key rating weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature as marked by stretched operating cycle of 91 days in FY22 increasing from 61 days in FY21 mainly driven by the increase in the inventory period while the creditor days and collections period has almost remained at similar levels. The inventory has increased from 67 days in FY21 to 105 days in FY22 mainly due to increase in inventory to Rs 454.47 crore as on March 31, 2022 (PY: Rs 213.73 crore) because the company created some buffer stock due to problems with China also the company has launched some new products in the market for which it has to maintain inventory as most of the sales are done in the month of Q1 and Q2 due to which inventory peaked, generally inventory period remains around 1.5-2 months. The average collection period remains moderate at 56 days in FY22 (PY: 62 days) as the company gives a credit period of 60-70 days to its buyers.

Exposure to agro-climatic conditions

The pesticide industry derives its sales from the agriculture sector which is highly dependent upon monsoons as well as incidence of fungal/pest attack on crops. The sales and profitability of the pesticides industry depends largely on the prevalent agro-climatic conditions. However, the group has its presence spread across 22 states as well as in multiple markets (domestic and international) which reduces the group's dependence on climatic conditions of a particular region.

Highly competitive nature of agro-chemicals industry

The domestic demand for agrochemicals is expected to remain elevated with favourable agronomical conditions such as good moisture in the soil and adequate water levels in reservoirs which bodes well for the winter crop/Rabi season and production during FY21 has crossed FY20 levels of 153.27 million tonnes. With the government propagating the development of the agricultural sector and with the recent proposals under the 'Aatmanirbhar Bharat' package pertinent towards the upliftment of the agrarian economy focused on boosting agriculture and its allied sectors (by strengthening its infrastructure and logistics), the demand for agrochemicals seems sanguine. Going forward, with acreage and crop prices both improving, the sector is structurally well-placed. Exports of agrochemicals are expected to remain. The pandemic has had limited impact on crop planting patterns and crops like wheat, rice and soya bean have shown strength. The domestic agrochemicals sector has a good opportunity to gain considerable market share in the global markets as customers are looking to diversify their supplies away from China.

Liquidity: Adequate

The liquidity of the company is comfortable marked by cash and bank balance of Rs 26.59 crore as on March 31, 2022. The company has repayment obligation of Rs 21.59 crore against projected GCA of Rs 134.54 crore in FY23. The company has comfortable gearing headroom with overall gearing of 0.91x and current ratio of the company remains above unity at 1.32x as on March 31, 2022. The utilization of working capital limits remains moderate at around 64% for trailing twelve months ending April 2022.

Analytical approach: Consolidated approach; Financials of Best Agrolife Limited (BAL), Best Crop Science Private Limited (BCSPL) and Seedlings India Private Limited (SIPL) have been consolidated. These entities are engaged into similar line of business having common management along with operational and financial linkages.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Pesticide

About the company

Incorporated in 1992, Best Agrolife Limited is a public limited listed company, engaged in the in the trading of agrochemical products such as insecticides, pesticides, herbicides, fungicides and plant nutrients. The company's crop protection chemical products are sold through distributors and co-marketing alliances with leading Indian companies throughout the country. It has almost 60+ products, 80+ technical licenses, 360+ formulation licenses, 30,000+ MTPA manufacturing formulation capacity and a 7000+ MTPA integrated state-of-the-art technical plant, one of the country's most comprehensive portfolios. The merger of Best Agrochem Private Limited (Transferor Company) with Best Agrolife Limited (formerly Sahyog Multibase Limited) consummated on 05 May 2020. This was a reverse merger, and Sahyog Multibase Limited was a sick unit. Best Agrolife Limited was listed on the BSE /NSE on 05 May 2020. Group company Best Crop Science LLP was converted to Best Crop Science Private Limited on 28 August 2021 and was subsequently taken over by Best Agrolife Limited as a 100% subsidiary and Seedlings India Private Limited was established in February 2021 as a 100% subsidiary of Best Agrolife Limited.

Brief Financials (₹ crore)- Consolidated	March 31, 2021 (A)^	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	1259.51	1453.96	464.07
PBILDT	90.35	183.93	66.25
PAT	50.07	112.88	40.12
Overall gearing (times)	1.11	0.91	NA
Interest coverage (times)	7.50	9.96	NA

A: Audited
^ financials of Best Agrolife Limited, Best Crop Science LLP and Seedlings India Pvt Ltd have been combined

Status of non-cooperation with previous CRA: NA
Any other information: NA
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 (MM-YY)	Coupon Rate (%)	Maturity Date (MM-YY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	30.00	CARE A-; Stable / CARE A2+
Fund-based/Non-fund-based-LT/ST		-	-	-	205.00	CARE A-; Stable / CARE A2+

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/ ST-Working Capital	LT/ST*	30.00	CARE A-; Stable				

	Demand loan			/ CARE A2+				
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	205.00	CARE A-; Stable / CARE A2+				

*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/ ST-Working Capital Demand loan	Simple
2	Fund-based/Non-fund-based-LT/ST	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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