

Baramati Agro Limited (Revised)

February 15, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	982.45 (Enhanced from 892.69)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	696.00 (Enhanced from 530.00)	CARE A-; Positive / CARE A2+ (Single A Minus; Outlook: Positive / A Two Plus)	Reaffirmed; Outlook revised from Stable
Total Facilities	1,678.45 (Rs. One Thousand Six Hundred Seventy-Eight Crore and Forty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Baramati Agro Limited (BAL) continues to derive strength from established track record of the company in sugar and poultry business, experienced and resourceful promoters, diversified revenue stream from poultry, feed-mill, sugar, and trading businesses coupled with fully integrated operations of its sugar and poultry divisions. The ratings are further supported by cordial relationships with farmers community leading to sufficient procurement of cane, diversified distribution network, and improvement in the financial risk profile of the company during FY21 (refers to period April 01 to March 31). During FY21, the company witnessed growth in both its major segments sugar and poultry. The performance in the poultry division improved significantly with considerable pick-up in the demand and limited supply resulting in improved realization. Further the sugar division registered growth owing to the better sugar season leading to ample availability of sugarcane, supported by a normal monsoon. The ratings also take note of growing scale of operations during 9MFY22 (refers to the period from April 01 to December 31).

The ratings strength, however, continue to remain constrained by the inherent cyclicity and regulatory nature of the sugar industry, and working capital intensive nature of operations. The ratings are further constrained by the susceptibility of profitability to raw material price movements, fortunes of the poultry industry being susceptible to disease outbreaks, highly fragmented and competitive nature of the poultry industry.

The ratings also take note of scaling risk associated with the nascent stage of operations of recently completed debt funded capital expenditure under sugar division. The same will result in moderation of capital structure and debt coverage metrics in the near term.

Furthermore, the ratings also take cognizance of the likely moderation in the capital structure due to the expected merger of the loss-making group companies with BAL. However, deriving expected synergies out of this merger would be beneficial to BAL in strengthening its supply chain & logistics operations and would remain the key rating monitorable.

Rating Sensitivities

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

- Improvement in the scale of operations coupled with profitability in the range of 10-12% on a sustained basis.
- Improvement in capital structure and debt coverage indicators with gearing level below 1.50x on a sustained basis.

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

- Delay in obtaining the envisaged benefits from the project.
- Decline in profitability to less than 6% on a sustained basis.
- Any un-envisaged sizable debt leading to greater than 2 times gearing level on a sustained basis.

Outlook: Positive

The change in outlook from stable to positive is on account of expected increase in scale of operations and profitability on the back of benefits accruing from the recent capex in sugar division for capacity enhancement of ethanol and new facility for refined white sugar.

Any delay in receiving the envisaged benefit from the project resulting in decline in margin and deterioration in leverage of the company might necessitate change in outlook.

¹Complete definitions of the ratings assigned are available at HYPERLINK "<http://www.careedge.in>" www.careedge.in and in other CARE Ratings Ltd.'s publications.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & professional management

Promoted by Shri Rajendra Pawar, BAL has a successful track record of over three decades in the industry. The company is managed by a six-member Board of Directors with Mr. Rajendra D. Pawar being the Chairman and Managing Director and is currently being spearheaded by his son, Mr. Rohit Pawar (CEO and Executive director). The management is assisted by a team of technical and finance professionals with experience in relevant fields for the company's day-to-day operations.

Diversified businesses in the agro related activities with poultry, sugar, feed and trading coupled with fully integrated operations of Sugar and Poultry segments

BAL has been in the business of poultry farming for over three decades. It has integrated poultry operations from hatchery to broiler & layer farming along with contract farming. Further, it has backward integration in feed-mill segment. The company is also engaged in selling of value added and packaged chicken products. Moreover, the company also has a fully integrated operations in sugar division with diversified revenue streams from sale of sugar, co-generation of power and distillery which help the company absorb fluctuations in the prices of raw material (sugarcane) and finished goods. The price fluctuation risk is expected to be minimized to certain extent with the completed debt funded capacity expansion in the distillery segment. Furthermore, the co-gen unit also enables a stable stream from the sale of power and reduces the impact of cyclicity on the profitability of the company. In addition to the above segments, the company is also engaged in the trading of sugar, milk, fruits, vegetables and other agricultural & horticultural products wherein it caters to the international markets such as Middle East, Srilanka, South Africa and other Southeastern nations. Trading is an opportunistic business for BAL and company's main focus is on revenue from manufacturing activity only. Going forward, majority of the revenue is expected from sugar division owing to the growing demand of ethanol.

Cordial Relationship with farmer community leading to sufficient procurement of cane

BAL's promoters enjoy cordial relationship with local farmers in Baramati and nearby areas and have a network of more than 20,000 farmers. The timely payment as per the market rates for cane and rearing of poultry for contract broiler farming ensure farmer's loyalty to BAL. Further, the manufacturing facility of BAL is well equipped with modern technology with SAP systems installed and integrated with the cane management system (CMS) which enables to track the efficiency and control any slippages in the internal control system.

Diversified distribution network of its products and presence of retail outlets through own brands

The company sells its products under the brand name of 'Baramati Agro Fresh chicken' and 'Elicious'. 'Baramati Agro Fresh Chicken' brand is well established in Maharashtra, particularly in Pune, Nashik & Pimpri-Chinchwad region with more than 4500 shops associated with the brand for the sale of Live Broiler birds. The company launched exclusive outlets under the name of 'Chicken Vicken' and this franchise-based model has over 300 stores across Pune and Mumbai. In the cattle feed segment, the company has a network of more than 350 distributors and 800 farmers spread across the states of Maharashtra, Karnataka, Andhra Pradesh, Tamil Nadu and Gujarat. In the feed mill division, the company manufactures and sells the cattle feed under its own brand viz. 'Baramati Agro Pashu Aahar'.

Improvement in financial risk profile during FY21

During FY20, the operating performance of the company was severely impacted owing to the outbreak of COVID-19. However, with pick-up in demand and opening up of economy, the financial risk profile of the company recovered during FY21.

BAL registered a growth of 14% in Total Operating income (TOI) from Rs.1855.50 crore in FY20 to Rs.2121.00 crore in FY21, driven by the growth in all divisions of the company. The growth in the sugar segment was mainly on account of the higher cane availability, which resulted in higher production of sugar and its by-products (specially ethanol). Further, the growth in poultry segment was primarily driven by increase in demand and realization prices for the poultry product.

The overall PBILDT margin for the company stood at 10.70% as against 9.50% in FY20. Further, with limited fixed capital charges and improved operational levers, PAT margin improved significantly to 4.52% in FY21 as against 1.11% in FY20 (FY19: 4.64%). During 9MFY22 (refers to the period from April 01 to December 31), the company has achieved a turnover of Rs.2077.56 crore. BAL continues to have satisfactory capital structure with debt to equity at below unity and overall gearing at 1.16x as on March 31, 2021 as against 1.00x as on March 31, 2020. The slight deterioration was on account of the higher utilization of working capital borrowings. Further, with improvement in profitability, the debt protection matrices also improved as reflected by interest coverage of 5.26x for FY21 (P.Y. 4.14x).

Key Rating Weaknesses

Moderate profitability and likely moderation in capital structure in the near term

The company operates in four business segments and derives majority of its revenue from sugar and poultry sectors. The commodity nature of business restricts the profitability margins of the company. Moreover, the margins are also impacted by the trading activity which fetches the PBILDT margin of below 3%. Overall, the PBILDT margin of the company has been in the range of 8-11% for the past 5 years ended FY21.

Further, the company has recently completed the capital expenditure under its sugar division with commercial operations started from January 2022. The project was for enhancing its crushing capacity, conversion of existing standard sugar production capacity into mill white sugar refining capacity, enhancement of its co-generation capacity and expansion of its ethanol production capacity. The said capex was funded with a mix of debt and internal accruals in the ratio of 70:30. As a result, the capital structure of the company is likely to moderate to 1.30x-1.60x in near term.

The ability of the company to generate the envisaged benefits from the project will be crucial for the overall financial risk profile and will be a key rating monitorable.

Inherent risks associated with sugar and poultry industry

Sugar industry is highly regulated industry. Cyclical nature of sugar industry and volatility in prices results in significant impact on operating performance of sugar companies. These apart operations are susceptible to cane availability which is a challenge due to adverse climatic conditions. However, with recent capex for mill white refined sugar, the company will have the option to procure raw sugar from international/domestic market and subsequently sell the processed export quality Mill White Sugar. This will mitigate the cyclicity risk to a large extent.

The major raw material for the poultry segment is the poultry feed which consist of maize and soya accounting for more than 70% of the overall cost. The profitability is highly susceptible to the volatility in raw material prices. The performance of the segment is also exposed to outbreak of any flu or diseases associated with poultry. The same directly hinders the demand of the poultry products adversely impacting the poultry prices. However, BAL, has high standard practices for biosecurity which demarcates it from backyard and unorganized farming and also shields from the impact of outbreak to some extent.

Nonetheless the vulnerability of such flu outbreaks still exist along with margins being susceptible to volatility in raw material. This impact the fortunes of the companies related to the poultry sector and remains a key monitorable.

Working capital intensive nature of operations due to long inventory holding period

Seasonal nature of the sugar industry and long production cycle in the poultry segment results in long operating cycle. However, usually the company makes payment to farmers within stipulated time and sells to sugar institutional customers on less than 30 days credit terms and to traders on cash basis. The average inventory holding was 101 days in FY21 as against 100 days in FY20. The working capital cycle in FY21 was seen at 72 days as against 73 days in FY20.

Liquidity – Adequate

Liquidity of BAL is characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate free cash balance of and cash & cash equivalents to the tune of around Rs.55 crore as on December 31, 2021 as against Rs. 94.86 crore as on March 31, 2021. In addition, the average CC utilization for the 12 months ended December 31, 2021 stood at around 40%. The unutilized bank lines provide additional liquidity cushion.

Industry outlook

Sugar: Sugar industry is well poised to benefit from domestic and global factors. Tight global demand-supply situation, favourable government policies and continuous push for higher blending will keep the inventory levels under control and sugar prices firm. Hence, the dynamics of the sector are set to change in a structural manner.

Poultry: India has a large underpenetrated market with one of the lowest annual per capita consumption of broiler meat and eggs. This presents growth opportunities supported by a growing food services and bakery foods market, which is expected to create a positive impact on the consumption of meat and eggs.

Feed Mill: The Indian animal feed market size reached a value of almost INR 403.5 billion in the year 2020. The market is further expected to grow at a CAGR of 15% between 2021 and 2026 to reach a value of almost INR 933.3 billion by 2026. The growth is expected to be driven by increasing domestic consumption of animal-based products, rising livestock population, and growing dependence on imports.

Analytical approach: Consolidated

CARE has analyzed BAL's credit profile by considering the consolidated financial statements of the company owing to financial, business and operational linkages between the parent and subsidiaries. Both the subsidiaries operate in the similar line of business (trading of agro products) and under a common management team and brand name. These subsidiaries are strategically important to the business of the parent as these entities act as an extension of the parent's business in different regions and geographies. The details of the subsidiaries which have been consolidated as on March 31, 2021 are:

Sr.no.	Name of the subsidiary	Country of incorporation	% of holding as on March 31, 2021
1	Baramati Agro Singapore Pte. Ltd	Singapore	100.00
2	Baramati Agro Tanzania Limited	Tanzania	100.00

Applicable Criteria

[CARE's Criteria on assigning outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

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

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Sugar Sector](#)

[Rating Methodology - Wholesale Trading](#)

[Rating Methodology: Consolidation & Factoring Linkages in Ratings](#)

About the Company

Incorporated on January 14, 1988, BAL is engaged in the business of poultry & poultry products; production of cattle and poultry feed, manufacturing and selling of sugar, distillery products and electricity; trading of sugar, grain, fruits and vegetables.

The fully integrated sugar division of BAL comprises of three sugar production units with an aggregate installed capacity of 19,000 TCD (tones crushed per day), molasses-based distillery unit with installed capacity of 5.00 lakh LPD (Liters Per Day) and 46.75 Mega Watt bagasse-based co-generation unit.

The company has a fully integrated facility for poultry facility with a brooding and growing capacity of 3.40 lakh birds per annum. The poultry products are sold under the brand name of 'Baramati Agro Fresh Chicken' and 'Elicious' and to further strengthen its distribution chain, company launched exclusive outlets under the name of 'Chicken Vicken'.

Furthermore, the company has feed mill units located at Baramati (Maharashtra), Yeola (Maharashtra) and Kuppam (Andhra Pradesh) with a combined capacity of 4.20 lakh Metric Ton per Annum and it sells its feed under its own brand.

Brief Financials (Rs. crore) -Consolidated	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	1,855.50	2,121.01	2077.56
PBILDT	176.25	226.87	Not Available
PAT	20.67	95.89	
Overall gearing (times)	1.00	1.16	
Interest coverage (times)	4.14	5.26	

A: Audited; UA: Unaudited

Brief Financials (Rs. crore) –Standalone	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	1777.31	2084.05	1344.33
PBILDT	172.21	218.74	116.4
PAT	17.12	88.12	40.15
Overall gearing (times)	1.03	1.21	1.14
Interest coverage (times)	4.08	5.10	4.19

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	514.00	CARE A-; Positive
Fund-based - LT-Term Loan	-	-	-	March 2029	468.45	CARE A-; Positive
Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	-	-	-	-	20.00	CARE A-; Positive / CARE A2+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	100.00	CARE A-; Positive / CARE A2+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	576.00	CARE A-; Positive / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	514.00	CARE A-; Positive	-	1)CARE A-; Stable (30-Mar-21)	1)CARE A-; Stable (19-Feb-20)	1)CARE A-; Positive (26-Sep-18)
2	Fund-based - LT-Term Loan	LT	468.45	CARE A-; Positive	-	1)CARE A-; Stable (30-Mar-21)	1)CARE A-; Stable (19-Feb-20)	1)CARE A-; Positive (26-Sep-18)
3	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	LT/ST	20.00	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (30-Mar-21)	1)CARE A-; Stable (19-Feb-20)	1)CARE A-; Positive (26-Sep-18)
4	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	100.00	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (30-Mar-21)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)	1)CARE A-; Positive / CARE A2+ (26-Sep-18)
5	Non-fund-based - LT-Letter of credit	-	-	-	-	-	-	1)CARE A-; Positive (26-Sep-18)
6	Fund-based/Non-fund-based-LT/ST	LT/ST	576.00	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (30-Mar-21)	1)CARE A-; Stable / CARE A2+ (19-Feb-20)	1)CARE A-; Positive / CARE A2+ (26-Sep-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable
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	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
4	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 instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: 022-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Monika Goenka
Contact no.: 88793 00881
Email ID: monika.goenka@careedge.in

Relationship Contact

Name: Aakash Jain
Contact no.: 81064 00001
Email ID: aakash.jain@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**