

Best Agrolife Limited

October 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term/Short Term Bank Facilities	405.00	CARE BBB+ / CARE A2 (RWN)	Revised from CARE A-; Stable / CARE A2+; Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Best Agrolife Limited (Hereinafter referred to as BAL) have been placed on rating watch with negative implications in view of the income tax search operation being conducted at various premises of the group. CARE Ratings would await further developments and clarity to emerge in this matter in order to accurately evaluate the potential repercussions of the aforementioned income tax search on the credit profile of the company.

The revision in ratings assigned to the bank facilities of BAL factors in the elevated debt levels which is expected to increase further owing to ongoing brownfield capex for expansion, higher reliance on external debt for working capital needs with full limit utilization in some banks in the recent past which also led to overdrawn working capital limits in the group by 5 days due to month-end interest levy and the operational disruption caused by the income tax raid. The ratings are also constrained by exposure to agro-climatic conditions and highly competitive nature of the agro-chemicals industry. The ratings, however, draw strength from company's consistent growth in scale of operations and improvement in profitability margins with increased focus on specialized products as compared to generic products. Despite deterioration in the overall gearing, the company's coverage indicators have continued to remain comfortable which has been supported by steady cash flow from operations. The ratings also 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations with sustained operating margins of more than 18% with improved liquidity.
- Improvement in capital structure leading to overall gearing below 1x.

Negative factors

- Increase in debt levels leading to total debt to PBILDT of more than 2.00x on consolidated level.
- Further deterioration in its collection and inventory period leading to increase in its working capital cycle above 150 days and impacting the liquidity profile of the company.

Analytical approach: Consolidated

A consolidated approach has been adopted on account of common management, operational and financial linkages between the company and its subsidiaries. A list of subsidiaries as on March 31, 2023, has been provided below:

Sr. No.	Name of the companies/ subsidiaries held directly	Extent of shareholding as on March 31, 2023
1.	Best Crop Science Private Limited	100.00
2.	Seedlings India Private Limited	100.00

Outlook: Not Applicable

Detailed description of the key rating drivers:

Search Operations by the Income Tax department

The Income Tax department carried out a search operation on the premises of the group and got concluded on September 30, 2023. The likely impact on the operations and financial profile of the company shall be contingent upon any demand notification by the Income Tax Department. Consequently, CARE Ratings would await further developments to unfold in order to assess the exact impact of the above Income Tax search on the credit profile of the company and subsequently take a view on its credit rating.

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

Key strengths

Established track record of operations and experienced management

Best Agrolife was incorporated in the year 1992 and is currently promoted by Mr. Vimal Kumar (Managing Director) and has vast experience in the agrochemical industry for more than 20 years and 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, and is responsible for managing the company's strategic alliances, marketing, and branding strategies. The company has experienced second-lien of management having extensive experience in agrochemical industry.

Diversified product portfolio with growing distribution network

The group 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 generic agrochemicals stood at 45.00% of total consolidated sales during FY23 (PY: 50.00%) while that from hybrid agro chemicals stood at 55.00% of total consolidated sales. The group is focusing more on trading and manufacturing of specialized agro chemicals as they have better margins. The group's distribution network has been increasing across the country with more than 6000+ distributors and also has 18 depots as on March 31, 2023. Along with the increased distribution network, the group 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 group's scale of operations has witnessed an increasing trend with a 5-year CAGR of ~15% from Rs. 870.11 Cr in FY19 to Rs. 1,748.14 crore in FY23. During FY23, the total operating income of the group increased by about 20% from Rs. 1,453.96 Cr in FY22. The same has been largely on account of growing demand along with better product-mix leading in better sales realization. The PBILDT margin of the group improved substantially and stood at 18.08% in FY23 (PY: 12.65%). The same has been owing to group's increased focus on specialized products which attracts better margins as compared to generic products whereby, the sale of generic products have remained similar in the past four years while that from specialized products increased from Rs. 245.80 Cr in FY20 to Rs. 960.12 Cr in FY23.

Current year performance: During Q1FY24 (refers to period from April to June), the company reported total operating income of Rs. 612.23 Cr (PY: Rs. 464.07 Cr), thereby recording y-o-y growth of ~32%. Further, the PBILDT margin improved by 765 bps and stood at 21.93% during Q1FY24 (Q1FY23: 14.28%) with increase in scale of operations and change in product-mix.

Comfortable solvency indicators albeit moderate capital structure

The debt coverage indicators stood comfortable marked by interest coverage ratio of 8.14x for FY23 (PY: 9.96x) and total debt to GCA of 2.68x as on March 31, 2023 (PY: 2.17x), owing to healthy profitability margins. The capital structure of the group is moderate as marked by overall gearing of 1.17x as on March 31, 2023, moderating from 0.91x as on March 31, 2022, mainly on account of significant increase in debt to Rs. 567.93 Cr as on March 31, 2023 (PY: Rs. 269.77 Cr), in the form of working capital borrowings due to increase in the inventory as on March 31, 2023, since their product offerings cater to kharif crops, the demand for which is high in H1 of the fiscal. The group also need to maintain inventory for its new product launches. The group has plans to incur a debt funded brownfield capex of ~Rs. 200 Cr for technicals manufacturing unit over the medium term in order to backward integrate to improve operational efficiencies.

Key weaknesses

Elevated debt level with high reliance on external debt

The total debt of the group increased from Rs 269 Cr as on March 31, 2022 to Rs 567 Cr as on March 31, 2023 on account of increase in working capital borrowings. Moreover, this upward trajectory in debt may persist due to the ongoing capital expenditure. The increase in working capital borrowings is exacerbated by the strategic shift in the group's product portfolio towards patented products to ramp up its operations. The operations of the group remain working capital intensive in nature marked by stretched operating cycle of 137 days in FY23 increasing from 91 days in FY22, mainly driven by the increase in the inventory period and collections period while the creditor days has almost remained at similar levels. The inventory days have increased from 105 days in FY22 to 148 days in FY23 with increase in inventory to Rs. 708.70 Cr as on March 31, 2023 (PY: Rs 454.47 Cr) as most of the sales are done in Q1 and Q2 due to which inventory peaked, generally inventory period remains around 1.5-2 months. The average collection period remains moderate at 62 days in FY23 (PY: 56 days) as the company gives a credit period of 60-75 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. 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: Stretched

The liquidity of the group is stretched as marked by full utilization of working capital limits in most of the banks. Further, the operations of the group remain working capital-intensive in nature, as evidenced by the stretched operating cycle of 137 days in FY23. However, the cash and bank balance stood at Rs 77.13 Cr as of March 31, 2023. The group has a repayment obligation of Rs. 13.74 Cr against an envisaged GCA of Rs. 314.08 Cr in FY24. The current ratio of the group remains above unity at 1.33x as of March 31, 2023. The group has relied on working capital borrowing to fund the incremental gap, and the operational cash flow has been modest, which has kept the utilization level high. Further, the Cash Credit account with one of the lenders remained overdrawn in the group in September 2023 due to month-end interest levies and was regularized in 5 working days. Going forward, the impact of the planned capital expenditures on liquidity and the collection efficiency during Q3FY24 to ease liquidity amidst elevated debt level will be a key monitorable.

Environment, social, and governance (ESG) risks: Agrochemical entities face major environmental-related risk on the back of highly toxic effluents generated during the manufacturing process. These entities are required to follow stringent pollution control norms set by the regulatory authorities w.r.to handling of various hazardous solid waste, wastewater and air emission. As a measure to reduce carbon footprint, BAL is planning to set up a 3MW solar power plant. The company is also trying to produce technicals which are environment friendly by using modern chemistry. Agrochemicals are important from the 'Social' standpoint since it ensures food security for the large population, although there are obvious concerns attached w.r.to manufacturing process and rising usage of agrochemicals for higher yield. Adequate measures to ensure health and safety of the work force employed in agrochemical manufacturing in very important. High consumption of agrochemicals poses health hazards for the consumers of final products which is resulting in partial shift towards organic farming to avoid adverse impact of agrochemicals. BAL's Corporate Governance structure is characterized by appropriate board composition and extensive disclosures.

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](#)

[Manufacturing Companies](#)

[Pesticide](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Fertilizers & Agrochemicals	Pesticides & Agrochemicals

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)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,453.96	1,748.14	612.23
PBILDT	183.93	316.12	134.29
PAT	112.98	192.15	90.5
Overall gearing (times)	0.91	1.17	NA
Interest coverage (times)	9.96	8.14	10.85

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	50.00	CARE BBB+ / CARE A2 (RWN)
Fund-based/Non-fund-based-LT/ST		-	-	-	355.00	CARE BBB+ / CARE A2 (RWN)

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 2023-2024	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
1	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	50.00	CARE BBB+ / CARE A2 (RWN)	CARE A-; Stable / CARE A2+ (06-Sep-23)	1)CARE A-; Stable / CARE A2+ (06-Oct-22)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	355.00	CARE BBB+ / CARE A2 (RWN)	CARE A-; Stable / CARE A2+ (06-Sep-23)	1)CARE A-; Stable / CARE A2+ (06-Oct-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Demand loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Analytical Contacts Sajan Goyal Director CARE Ratings Limited Phone: +91-120-4452017 E-mail: sajan.goyal@careedge.in Sachin Mathur Associate Director CARE Ratings Limited Phone: +91-120-4452054 E-mail: sachin.mathur@careedge.in Rohit Bhatia Rating Analyst CARE Ratings Limited E-mail: Rohit.Bhatia@careedge.in
--	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings 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 has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings 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 have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings 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 is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in