Advance Agrolife Private Limited

February 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	47.56 (Enhanced from 29.98)	CARE BBB; Stable	Revised from CARE BBB-; Stable
Short Term Bank Facilities	2.42	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities of Advance Agrolife Private Limited (AAPL) is due to improvement in the overall financial risk profile characterised by improvement in scale of operations and capital structure during FY23 (audited, FY refers to period April to March) and 9MFY24 (provisional, refers to the period April 1 to December 31). Further, the ratings continue to derive strength from comfortable debt coverage indicators, adequate liquidity, the vast experience of its promoters in the agrochemicals industry, wide product profile coupled with established marketing network and renowned customer base.

The ratings, however, are constrained on account of growing albeit moderate scale of operations with moderate profitability, and its presence in a competitive industry along with vulnerability of income and profitability to climatic conditions, and stringent pollution norms of the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations marked by Total operating income (TOI) of over Rs.600 crore while maintaining current PBILDT margin at 6.00% or more on sustained basis
- Maintaining current capital structure marked by overall gearing below 0.50x
- Sustaining operating cycle below 60 days

Negative factors

- Decline in scale of operations with TOI falling below Rs.300 crore and PBILDT margins below 5.00% on sustained basis
- Any debt funded capex other than envisaged leading to deterioration in capital structure marked by overall gearing above unity

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of AAPL is "Stable" considering that the company shall continue to benefit from the extensive experience of its promoters which will enable it to sustain stable operating performance over the medium term.

Detailed description of the key rating drivers:

Key strengths

Growth in scale of operations during FY23 and 9MFY24 albeit remained moderate

Scale of operations marked by TOI grew at 57.62% over FY22 attributable to better demand scenario. AAPL reported TOI at Rs.397.31 crore in FY23 as against 252.07 crore in FY22. Further, in 9MFY24, AAPL has reported TOI of Rs.392.19 crore with PAT of Rs.12.63 crore. The scale of operations marked by TOI grew at a Compounded Annual Growth Rate (CAGR) of 31.14% over the last five years ended FY23 primarily on account of healthy demand from both domestic and export markets resulting in growth in sales volume.

Further, the company plans to incur a near-term capex of ~Rs.21.25 crore in FY24 for setting up a technical formulation plant of 7200 MTPA and Sulphur plant of 18,000 MTPA in Rajasthan. The Sulphur plant commenced its operations from September 2024 onwards and the technical formulation plant is expected to commence operations by April 01, 2024. The commencement of these facilities is anticipated to increase revenues in future years.

Improvement in capital structure and comfortable debt coverage indicators

Capital structure of AAPL has further improved marked by overall gearing of 0.49x as on March 31, 2023, as against 0.57 times as on March 31, 2022. Capital structure has shown improving trend in last 3 years with small capex and healthy accretion of profit

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

to reserves. Going forward with no major capex other than envisaged, the same is expected to comfortable and remain below unity in near term.
Debt coverage indicators of the company continued to remain healthy marked by interest coverage ratio of 10.78x (PY:13.21x) with low total debt to GCA of 1.43x (PY:1.83x) for the year ended on March 31, 2023. AAPL's interest coverage ratio and total debt to GCA for 9MFY24 stood at 10.24x and 1.68x respectively.

Experienced management
The overall affairs of the company are managed by Mr. Om Prakash Choudhary (Managing Director) and Mr. Kedar Choudhary (Director) of the company who have vast experience of more than two decades in the industry. They look after the overall operations of the company.

Diversified product profile coupled with established marketing network
AAPL has a long track record of more than two decades in manufacturing various categories of pesticides formulation (viz. fungicide, insecticide, herbicide) in the form of granule, liquid, dust, and wettable powder in various sizes as per the customer requirement. The pesticide plant mainly specializes in various types of agrochemicals for large organization. The company generates around 30-35% of its TOI from its own brand segment and balance though B2B segment which includes major fertilizer/pesticide players. In domestic market, AAPL caters to reputed clients and having long-standing relationship with them for B2B sales. Furthermore, with long track record of operations under own brand sale segment, the company has established more than 3000 distributors spread across nine states in India. It also exports agrochemical to neighbour countries with export forming 6-8% of TOI in FY23 (FY refers to the period from April 1 to March 31).

Key weaknesses

Moderate profitability
AAPL's operating margin marked by its PBILDT margin have remained low in the range of 6-8% in last five years ended in FY23 mainly on account of low value addition involved in the business coupled with high competition in fragmented nature of industry. The PBILDT margin of the company remained in similar lines in FY23 at 6.32% as against 6.74% in FY22. Consequently, PAT margins remained stable at 3.85% in FY23 [PY: 3.75%].

Competitive nature of the industry with vulnerability of income and profitability to climatic conditions
The pesticides & insecticides industry is marked by heavy fragmentation with the absence of any major player having sizeable market share. The intense competition leads to competitive pricing and lower margins. The industry also faces regulatory risk due to prohibited usage of certain molecules. Furthermore, the sales and profitability of pesticide segment depends highly on the climatic conditions prevalent in the domestic and the international markets as the demand for pesticides emanates from agricultural production which is highly dependent upon monsoon.

Reputed but concentrated customer base
The clientele base of the company is concentrated as AAPL generates around 49% of its income from top ten customers in FY23. This increases its dependency on orders received from limited customers in the highly competitive agrochemicals industry. However, the same is partly mitigated as it has reputed clientele with established relationship.

Stringent pollution norms of the industry
AAPL is exposed to inherent regulatory risk considering the requirement of continuous adherence to stringent pollution control norms. The Central Pollution Control Board (CPCB) regulates the general standards for emission or discharge of environmental pollutants of carbon chemical industry.

Liquidity: Adequate
The liquidity profile of the company remained adequate, marked by a moderate operating cycle of 41 days in FY23 (PY:49 days), healthy cash accruals against low debt repayment and moderate liquidity ratios. However, working capital limit utilization remained high at above 69% during January 2023 – December 2023 period. The current ratio stood moderate at 1.35 times as on March 31, 2023, as against 1.38 times as on March 31, 2022. The company has Rs.0.08 crore as cash and bank balance as of FY23. The company is expected to generate cash accruals of ~Rs.15-20 crore in near term as against repayment obligation of Rs.2-3 crore.

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

About the company and industry

Industry classification

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

Incorporated in 2002, Jaipur (Rajasthan) based AAPL (CIN - U24121RJ2002PTC017467) was incorporated in February 2002 by Choudhary family. AAPL is engaged in the manufacturing of various kinds of pesticides formulation, fertilizer, and plant stimulant The company has manufacturing units located at RIICO Industrial Area Bagru, Jaipur. AAPL manufactures pesticides formulation (like. fungicide, insecticide, herbicide) in the form of granule, liquid, dust, and wettable powder in various sizes as per the customer requirement. AAPL also manufacturers various grades of Sulphur formulations with total installed capacity of 50,600 Metric Ton Per Annum (MTPA).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	252.07	397.31	392.19
PBILDT	16.98	25.11	23.55
PAT	9.46	15.28	12.63
Overall gearing (times)	0.57	0.49	0.52
Interest coverage (times)	13.21	10.78	10.24

A: Audited UA: Unaudited; 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 (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		-	-	-	30.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	31/01/2029	17.56	CARE BBB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	2.42	CARE A3+

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-Term Loan	LT	-	-	-	-	-	1)Withdrawn (22-Sep-20) 2)CARE BB+; Stable (22-Sep-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)CARE BB+; Stable (22-Sep-20) 2)Withdrawn (22-Sep-20)
3	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (26-Dec-22)	-	-
4	Fund-based - LT-Term Loan	LT	17.56	CARE BBB; Stable	-	1)CARE BBB-; Stable (26-Dec-22)	-	-
5	Non-fund-based - ST-Letter of credit	ST	2.42	CARE A3+				

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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Letter of credit	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.

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