Best Agrolife Limited

April 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	405.00	CARE BBB+ / CARE A2 (RWN)	Continues to be 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) were placed on rating watch with negative implications during the last review due to the income tax search operation conducted at various premises of the group in September 2023. CARE Ratings continues to monitor further developments and clarity to emerge in this matter to accurately evaluate the potential repercussions of the income tax search on the credit profile of the company.

The reaffirmation of ratings assigned to the bank facilities of BAL derive strength from the vast experience of the promoters in agrochemical industry along with long track record of operations, integrated operations of the group with diversified product portfolio and wide distribution network. Further, the ratings also factor in the 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, however, are constrained by the elevated debt level 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. The ratings are also constrained by exposure to agroclimatic conditions and the highly competitive nature of the agrochemicals industry.

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 (Profit before interest, lease rentals, depreciation and taxes) of more than 2.00x on consolidated level.
- Further deterioration in its collection and inventory period leading to an 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 of March 31, 2023, has been provided in Annexure 6.

Outlook: Not Applicable

Detailed description of the key rating drivers:

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) who have a 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

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

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 a well-diversified product profile, which includes insecticides, pesticides, herbicides, plant-growth regulators (PGR) and biocides. The company currently has licenses of over 250+ formulations registered with the Central Insecticide Board (CIB). PGRs and bio fertilizers have a higher profit margin compared to traditional chemicals. Sales from generic agrochemicals stood at 45.00% of total consolidated sales during FY23 (refers to the period from April 01 to March 31) (PY: 50.00%) while those from hybrid agrochemicals stood at 55.00% of total consolidated sales. The group is focusing more on trading and manufacturing of specialized agrochemicals as they have better margins. The group's distribution network has been increasing across the country with more than 6000+ distributors and BAL has 18 depots as of March 31, 2023. Along with the increased distribution network, the group has also been concentrating on field promotions to reach out to farmers.
Additionally, the company has also acquired 100% stake in Sudarshan Farm Chemicals India Private Limited (SFC) at an enterprise value of Rs 139 Cr in March 2024. The actual cash outflow would be around Rs 9.50 crore after adjusting for net working capital. The rationale behind this acquisition is to capitalize on SFC's R&D capability, Intellectual Property (IP) portfolio, and backward-integrated technical manufacturing expertise. Further, SFC has a dealer network of 2500 dealers which will facilitate BAL's inorganic growth initiatives.

Growth in scale of operations albeit moderate 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 to 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.
9MFY24: During 9MFY24 (refers to the period from April 01 to December 31), BAL recorded topline of Rs 1740.11 Cr as compared to Rs 1493.69 Cr in 9MFY23. However, the profitability of the company was impacted owing to continued macro-economic headwinds in Agrochemical industry which led to sharp drop in realizations and excess channel inventory due to a huge supply surge from China. Consequently, the company sold its generic products at reduced margins, while specialized products were not sold during this period due to lower realizations.

Comfortable solvency indicators albeit moderate capital structure
The debt coverage indicators stood comfortably, marked by interest coverage ratio of 8.14x for FY23 (PY: 9.96x) and total debt to GCA (Gross Cash accruals) 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 first half of the fiscal. The group also needs to maintain inventory for its new product launches. The group has plans to incur a debt funded brownfield capex of ~Rs. 200 Cr for technical manufacturing unit over the medium term in order to backward integrate to improve operational efficiencies.

Key weaknesses
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 awaits 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.

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 made in first half of the fiscal 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 agroclimatic 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 agroclimatic 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 agrochemicals industry

The domestic demand for agrochemicals is expected to remain elevated with favorable 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 'Atmanirbhar 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 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 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 58.62 Cr as of December 31, 2023. 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. Going forward, the impact of the planned capital expenditures on liquidity and the collection efficiency during forthcoming period 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 with respect to handling various hazardous solid waste, wastewater, and air emission. As a measure to reduce its carbon footprint, BAL is planning to set up a 3MW solar power plant. The company is also trying to produce chemicals which are environmentally friendly by using modern chemistry. Agrochemicals are important from the 'Social' standpoint since they ensure food security for the large population, although there are obvious concerns attached with respect 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

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Pesticides & Agrochemicals
Short Term Instruments

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 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)	9MFY24 (UA)
Total operating income	1,138.33	1,509.92	1740.11
PBILDT	129.16	96.00	294.87
PAT	87.07	47.08	178.76
Overall gearing (times)	0.44	0.81	0.91
Interest coverage (times)	12.24	4.01	6.28

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/ 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 2024-2025	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
1	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST	50.00	CARE BBB+ / CARE A2 (RWN)	-	1)CARE BBB+ / CARE A2 (RWN) (23-Oct-23) 2)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)	-	1)CARE BBB+ / CARE A2 (RWN) (23-Oct-23) 2)CARE A-; Stable / CARE A2+ (06-Sep-23)	1)CARE A-; Stable / CARE A2+ (06-Oct-22)	-

LT/ST: 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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Best Crop Science Private Limited	Full	Subsidiary
2	Seedlings India Private Limited	Full	Subsidiary

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

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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.

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