Advance Agrolife Private Limited

December 26, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	29.98	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Bank Facilities	**29.98 (₹ Twenty-Nine Crore and Ninety-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Advance Agrolife Private Limited (AAPL) derive strength from the vast experience of its promoters in pesticides industry, diversified revenue profile coupled with established marketing network, and comfortable capital structure and debt coverage indicators.

The ratings, however, are constrained on account of growing albeit moderate scale of operations with low profitability, reputed but concentrated customer base, competitive nature of the industry with vulnerability of income and profitability to climatic conditions, and stringent pollution norms of the industry.

Rating sensitivities

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

- Sustained increase in scale of operations of the company above 30% with diversification of customer base
- Improvement of profitability margins with registration of PBILDT margin above 9.00%

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

- Any major debt-funded project undertaken by the company which results in deterioration of capital structure with overall gearing above 1 time
- PBILDT margins falling below 5.00% on sustained basis
- Deterioration in working capital cycle exceeding beyond 90 days on sustained basis

Detailed description of the key rating drivers

Key rating strengths

Experienced management: AAPL is promoted by Mr. Om Prakash Choudhary (Managing Director) and Mr. Kedar Choudhary (Director) who holds extensive experience of over two decades in the industry. They look after the overall operations of the company. Mr. Deepak Kumar Kadwa has recently started his term as director in AAPL from November 14, 2022, onwards.

Diversified revenue 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 20-25% of its TOI from 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 nearly 3000 distributors spread across seven states in India. It also exports agrochemical to neighbour countries with export forming 6-7% of TOI in FY22 (FY refers to the period from April 1 to March 31).

Comfortable capital structure and debt coverage indicators: AAPL has comfortable capital structure marked by overall gearing of 0.57x as on March 31, 2022 (Audited) which had shown improving trend in last 3 years with small capex and healthy accretion of profit to reserves. Going forward with capex same is expected to deteriorate but remain below unity in near term.

Debt coverage indicators of the company remained healthy marked by interest coverage ratio of 13.21x with low total debt to GCA of 1.83x for the year ended on March 31, 2022 (Audited).

Key rating weaknesses

Growing albeit moderate scale of operations with moderate profitability: The total operating income (TOI) of AAPL grew at a Compounded Annual Growth Rate (CAGR) of 16.60% over the last three financial years ended FY22 to Rs.252.07

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

crore primarily on account of healthy demand from both domestic and export markets resulting in growth in sales volume. In H1FY23 (Unaudited), AAPL has registered TOI of Rs.213.25 crore with PAT of Rs.9.46 crore.
AAPL's operating margin marked by its PBILDT margin have remained low in the range of 5-8% in last five years ended in FY22 mainly on account of low value addition involved in the business coupled with high competition in fragmented nature of industry. During FY22 (Audited), PBILDT margin of the company reduced to 6.74% [PY:7.79%] owing to higher cost of raw materials with supply chain disruptions from China. Subsequently, PAT margin has also moderated to 3.75% in FY22 (Audited) [PY: 4.40%].
Reputed but concentrated customer base: The clientele base of the company is concentrated as company generates around 63% of its income from top ten customers. This increases its dependency on orders received from these limited customers in the highly competitive agrochemicals industry. However, same is partly mitigated as it has reputed clientele with established relationship.
Competitive nature of the industry with vulnerability of income and profitability to climatic conditions: The pesticides & insecticides industry is marked by heavy fragmentation with 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.
Stringent pollution norms of the industry: AAPL is exposed to inherent regulatory risk considering 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 moderate operating cycle of 49 days in FY22, healthy cash accruals against low debt repayment and moderate liquidity ratios. However, working capital limit utilization remained high at above 90% during April – September 2022 period. Due to high creditors, current ratio and quick ratio stood moderate at 1.38 times and 0.89 times respectively as on March 31, 2022, as against 1.35 times and 0.94 times as on March 31, 2021. The company has Rs.0.27 crore as cash and bank balance as on FY22. The company is expected to generate cash accruals of ~Rs.11-13 crore in near term as against repayment obligation of Rs.2.5-3.0 crore.

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies

About the company
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 two manufacturing units located at RIICO Industrial Area Bagru, Jaipur. The first unit is being used for manufacturing of pesticides formulation (like. fungicide, insecticide, herbicide) in the form of granule, liquid, dust, and wettable powder in various sizes as per the customer requirement. The other unit is being used for manufacturing of various grades of Sulphur formulations with installed capacity of 39,600 Metric Ton Per Annum (MTPA).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	205.57	252.07	213.25
PBILDT	16.01	16.98	16.98
PAT	9.04	9.46	9.46
Overall gearing (times)	0.59	0.57	NA
Interest coverage (times)	11.64	13.21	12.60

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA:

Any other information: Not Applicable

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 (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	-	-	-	-	18.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	31/01/2029	11.98	CARE BBB-; Stable

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-Term Loan	LT	-	-	-	-	1)CARE BB+; Stable (22-Sep-20) 2)Withdrawn (22-Sep-20)	1)CARE BB+; Stable (31-Jan-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)CARE BB+; Stable (22-Sep-20) 2)Withdrawn (22-Sep-20)	1)CARE BB+; Stable (31-Jan-20)
3	Fund-based - LT-Cash Credit	LT	18.00	CARE BBB-; Stable				
4	Fund-based - LT-Term Loan	LT	11.98	CARE BBB-; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: None

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

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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