Aries Agro Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (fund based)	126.60	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities (non-fund based)	49.40	**CARE A3+ (A Three Plus)**	Revised from CARE A2 (A Two)
Total Facilities	**176.00 (Rs. One hundred and Seventy Six crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the short-term bank facilities of Aries Agro Limited (AAL) is on account of stretched liquidity position of the company owing to elongated operating cycle on the back of considerable receivables outstanding from United Arab Emirates (UAE) subsidiaries. The unit in Sharjah, UAE ceased manufacturing in FY16 (refers to the period April 1 to March 31) due to change in duty structure and the manufacturing activity in Fujairah, UAE unit is disrupted since in the current fiscal year over challenges for supply of major material; thus, the profitability of AAL is impacted due to fixed costs incurred.

The reaffirmation of the ratings assigned to the long-term bank facilities of AAL continue to derive strength from the long track record and experience of the promoters in the micronutrient industry, diversified product portfolio and wide spread distribution network, moderate scale of operations, average financial risk profile marked by moderately leveraged capital structure and debt service coverage indicators.

However, the rating strengths are constrained by susceptibility of the company's profitability to volatility in raw material prices, exposure to foreign exchange fluctuation risk, working capital intensive nature of operations, low awareness amongst farmers, intensely competitive nature of the industry, and high dependence of the micronutrient industry on monsoon.

The ability of AAL to increase scale of operations while managing its incremental working- capital requirements effectively and maintain its profitability margins are the key rating sensitivities. Furthermore, any adverse impact on the cash flows of the company due to on-going arbitration on account of the classification of micronutrients under Central Excise is a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Established presence in micronutrient industry and experienced promoters

AAL commenced commercial operations in 1969 and has a successful track record of more than four decades in micronutrients industry. The company is founded and managed by Mirchandani family, holding 52.66% equity stake in AAL as on September 30, 2017. Mr. Rahul Mirchandani, Chairman and Managing Director, and Mr. Jimmy Mirchandani, Executive Director, spearhead the overall operations of AAL having more than two decades of experience in agrochemical industry.

Diversified product portfolio catering to all stages of agricultural activities

The company manufactures/trades in wide range of products expanded over the years which included chelated micronutrients, speciality fertilisers, secondary nutrients and water soluble fertilizers, and currently, owns more than 65 own brands. The product portfolio finds application at various stages of farming including application of nutrients during

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

soil preparation, multi-stage usage of nutrients/fertilisers during the entire crop cycle (2-3 applications), and crop protection products till harvesting.

Wide spread distribution network through established relationship with distributors
The company's strong distributorship emanates from strong network of more than 1,250 dealers, 7,000 distributors and 70,000 retailers making AAL's products available across 2,00,000 villages in India.

Moderate scale of operations
In FY17, the company reported a moderate growth rate of 8% p.a. in gross sales at Rs.313 crore on a consolidated level. AAL's income is directly linked to agricultural activities in the country and depends upon climatic conditions including good monsoon amongst others.

Moderately geared capital structure
The company's total debt majorly comprises of working capital bank borrowings. AAL's capital structure is moderately geared with overall gearing at 0.69 times as on March 31, 2017.

Key Rating Weaknesses
Ceasing of manufacturing in UAE albeit partly shifted in India
The company operated one unit in Sharjah, UAE via subsidiary which ceased manufacturing in FY16 over change in duty structure. The company sold the machineries of Sharjah unit and in FY18, AAL increased installed capacity in its existing units in India to compensate for the same and commenced manufacturing from June 2017 onwards. The other unit in Fujairah, UAE held via step-down subsidiary, the manufacturing activity is disrupted in the current fiscal year on account of challenges in sourcing of major raw material i.e. sulphur and on the lack of availability of power. The final outcome over the operations of Fujairah unit is pending to be finalised by the management. On a standalone basis, the net total investments, loans and advances, debtors and creditors outstanding as on March 31, 2017 towards subsidiaries is Rs.41.75 crore (net; around 37% of standalone tangible net worth).

Working capital intensive nature of operations
The setting up of micronutrient business is not capital intensive; however, the operations are working capital intensive in nature. The same is on account of high inventory required to be maintained due to seasonal sales and extended credit period offered to distributors. Additionally, on account of closure of UAE units, the recoverability of debtors is stretched for the same (as on September 30, 2017, around 45% of outstanding debtors are from receivables of the two UAE units). The same is reflected in an operational cycle of 403 days in FY17. The average utilization of working capital banks limits for the 12 months ending October 2017 is high at 89% providing limited liquidity back-up. For India operations, on a standalone basis, the company is taking various measures including incentives and discounts, to improve collection period. The same is reflected in improvement in collection period on standalone basis to 140 days in FY17 from 165 days in FY16.

Declining profitability and exposed to volatility in raw material prices
The fixed costs incurred due to closure of manufacturing unit in Sharjah, UAE as explained above adversely impacted the profitability in FY17. The profit before interest, depreciation and tax (PBILDT) margins declined to 17.22% in FY17 from 18.09% in FY16. The company's raw material requirement is met from both local purchases and imports. Significant fluctuation in raw material prices may have an adverse effect on the profitability margins due to low product differentiation and limited pricing power.

Inherent risk of the industry along with intense competition
The industry derives sales from the agriculture sector which is highly dependent upon monsoons as well as fungal/pest attack on crops. One of the other major restraints to growth of the agriculture micronutrients market is the lack of awareness among farmers in developing countries regarding appropriate dosage and proper application of micronutrients, thereby limiting its demand. The company faces stiff competition from unorganised players in the market. The industry is characterised by low entry barriers due to low capital investment and limited product differentiation and non-regulated nature of the industry unlike fertilisers which is highly regulated.

On-going arbitration albeit part resolution in June 2017

The company is in an on-going dispute with The Central Excise, Mumbai and Hyderabad over classification of plant nutrients as plant growth regulators resulting in a show cause notice of Rs.108.20 crore. However, in June 2017, the Appellate Tribunal in Hyderabad passed an order in favour of the company for around Rs.45 crore. Any adverse impact on the cash flows of the company due to the arbitration outcome is a key rating sensitivity.

Analytical approach: CARE analysed AAL's credit profile by considering consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries, common management, fungible cash flows, and facility availed by AAL for funding working capital requirement in subsidiaries.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[CARE's methodology for manufacturing companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Factoring Linkages in Rating]

About the Company

Aries Agro Limited (AAL) was founded in 1969 by Mirchandani family, having more than four decades of experience in agrochemical business. The promoter group holds 52.66% equity stake in the company as on September 30, 2017. The company is primarily engaged in manufacturing and sale of nutrients including micronutrients, speciality fertilisers, secondary nutrients and water soluble NPK fertilizers for plants in India and abroad. The company manufactures a wide range of products with more than 65 own brands which includes plant nutrients, crop protection chemicals and veterinary products. The veterinary products contribution to the total sales of AAL is minimal. AAL is pioneer in agricultural chelates and complexing of multi-micro nutrients in India. In addition, the company is engaged in trading of agricultural nutrients, speciality fertilisers and farm sprayers. Trading constitutes only 20% of consolidated sales and is undertaken on demand basis. AAL's manufacturing facility is spread across four locations in India.
AAL's group consists of two subsidiaries each in India and in UAE. The subsidiaries in India include Aries Agro Care Private Limited, Aries Agro Equipments Private Limited, and Aries Agro Produce Private Limited which are dormant. The subsidiaries in UAE are Golden Harvest Middle East FZC and Amarak Chemicals FZC which are operational.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	264	254
PBILDT	48	44
PAT	8	5
Overall gearing (times)	0.82	0.69
Interest coverage (times)	1.94	1.87

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	126.60	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	49.40	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Dates & Ratings assigned in 2017-2018	Dates & Ratings assigned in 2016-2017	Dates & Ratings assigned in 2015-2016	Dates & Ratings assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	126.60	CARE BBB+; Stable	-	1)CARE BBB+ (12-Aug-16)	-	-
2.	Non-fund-based - ST-BG/LC	ST	49.40	CARE A3+	-	1)CARE A2 (12-Aug-16)	-	-

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