Aries Agro Limited

March 12, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank facilities	126.60	-	Reaffirmed at CARE BBB- Stable and Withdrawn
Short-term Bank facilities	48.45	-	Reaffirmed at CARE A3 and Withdrawn
Total Facilities	**175.05**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB-; Stable/CARE A3' [Triple B Minus; Outlook: Stable/ A Three] assigned to the bank facilities of Aries Agro Limited (AAL) with immediate effect. The above action has been taken at the request of AAL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

CARE wide its press release dated June 10, 2019 had revised the ratings assigned to Aries Agro Limited (AAL) from CARE BBB+; Stable/ CARE A3+ to CARE BBB-; Stable/ CARE A3 factoring in the weaker than the envisaged financial performance for FY19, delay in stake sale proceedings of its UAE based subsidiary where AAL has large amount of unrealized receivables translating into persistently high operating cycle and stretched liquidity.

Earlier, CARE was made to understand that sale of stake (26%) in UAE based step down subsidiary, Amarak Chemicals FZC [Amarak], (which is currently dormant) would lead to revival of operations and realization of debtors housed in that entity. ALL vide its press release dated September 16, 2019 had informed the exchanges of the sale of 5,200 equity shares of AED 150 each of Amarak, out of the total 15,000 shares of AED 150 each held by its subsidiary Golden Harvest Middle East FZC, UAE (GHM). However, as per the management, the outstanding receivables of Rs.86.57 crore, as highlighted in the previous press release are yet to be realized. No further update is available with CARE with respect to the revival of operations of Amarak and timelines associated with receipt of the outstanding receivables.

The ratings continue to derive strength from long track record and experience of promoters in the micro nutrient industry, diversified product portfolio and wide spread distribution network. However, the above mentioned rating strengths are partially offset by modest scale of operations, weak debt and interest coverage ratios, susceptibility to volatility in input price & currency fluctuations, presence in intensely competitive nature of the industry with low awareness amongst the end consumers (farmers).

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 March 31, 2019. Dr. Rahul Mirchandani, Chairman and Managing Director, spearheads 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 and trades in wide range of products expanded over the years which include chelated micronutrients, specialty fertilizers, secondary nutrients and water soluble fertilizers, and currently, owns more than 65 brands. The product portfolio finds application at various stages of farming including application of nutrients during soil preparation, multi-stage usage of nutrients/fertilizers 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.

Key Rating Weaknesses

Working capital intensive nature of operations with elongated operating cycle

AAL sells its products to dealers/distributors who in turn offer credit period to the farmers as per the crop cycle, thus leading to high receivable days. On account of seasonality in sales and to ensure product loyalty, AAL holds a huge stock of inventory thus leading to high inventory days. Thus, AAL's operations are working capital intensive as is evident from operating cycle

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

for FY19 which stood at 404 days (360 days in FY18). Additionally, on account of closure of UAE units the recovery of receivables is stretched which leads to stretch in operating cycle.

Delay in collection of receivables from UAE based subsidiary despite stake sale
AAL has two subsidiaries in UAE namely Golden Harvest Middle East FZC (GHM) and Amarak Chemicals FZC (Amarak). Operations in GHM ceased in FY16 due to change in duty structure. Operations in Amarak (step-down subsidiary of GHM), were disrupted in FY18 (no operations till December 2019) on account of challenges in sourcing of major raw material i.e. sulphur and on the lack of availability of power. An amount of Rs. 86.57 Crore (as on March 31, 2019) is outstanding as unrealised receivables. This amount was to be realized post sale of stake of ~26% in Amarak. ALL vide its press release dated September 16, 2019 informed the exchanges of the sale of 5,200 equity shares of AED 150 each of Amarak, out of the total 15,000 shares of AED 150 each held by its subsidiary GHM. However, despite the stake sale in September, AAL has not realised the outstanding amount from Amarak.

Modest Scale of Operations with operating profit margin susceptible to raw material and foreign exchange rates
AAL reported a Total Operating Income of Rs. 268.61 Crore in FY19 (decline of 8% in comparison to the previous year). The decline is mainly attributed to rainfall deficit and dampened farmer sentiment. AAL's operations are highly dependent on agricultural activity in the country and thus directly linked to monsoon and climatic conditions. As is evident from the TOI, AAL's scale of operations is modest. CARE notes that in 9MFY20 operating income has grown by 15% on a yoy basis although, operating margins have declined marginally over the same period.
Significant fluctuation in raw material prices may have an adverse effect on the profitability margins due to low product differentiation and limited pricing power. Although, natural hedging is available owing to presence of export sales, AAL does not have a formal hedging policy and is forex cover are undertaken on need basis. Thus, the company continues to be exposed to foreign currency fluctuation risk in case of a timing difference.

Moderation in gearing levels; albeit weakening of debt coverage for FY19
The debt composition of AAL mainly consists of working capital borrowings which is used to fund its operating cycle. Overall gearing stood at 0.81 times as on March 31, 2019 (0.93 times in March 31, 2018). The debt coverage indicators like Total Debt to GCA and Interest Coverage weakened during FY19 on account of high finance cost on back of persistently high debt coupled with lower cash accruals.

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 unorganized players in the market. The industry is characterized by low entry barriers due to low capital investment and limited product differentiation and non-regulated nature of the industry unlike fertilizers which is highly regulated.

Analytical approach:
CARE has 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 and fungible cash flows. The subsidiaries do not contribute to Total Operating Income and thus rely on support from AAL. The entities considered in the consolidated financial statements are as mentioned below:

- Aries Agro Care Private Limited, India [AACPL]
- Aries Agro Equipment's Private Limited, India [AAEPL]
- Golden Harvest Middle East FZC, UAE [GHM]
- Amarak Chemicals FZC, UAE [Amarak]

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on assigning Outlook to Credit Rating
Criteria for Short Term Instruments
CARE's default recognition policy
Financial ratios - Non Financial Sector

About the Company
Aries Agro Limited 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 March 31, 2019. AAL 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. 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.

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

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total Operating Income	254.03	293.20	268.61	246.01
PBILDT	43.74	47.81	47.06	47.13
PAT	5.45	9.09	7.70	14.13
Overall Gearing (times)	0.80	0.93	0.81	Not available
Interest coverage (times)	1.87	1.65	1.63	2.57

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BBB-; Stable (10-Jun-19)	1)CARE BBB+; Stable (04-Oct-18)	1)CARE BBB+; Stable (05-Jan-18)	1)CARE BBB+ (12-Aug-16)
2.	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A3 (10-Jun-19)	1)CARE A3+ (04-Oct-18)	1)CARE A3+ (05-Jan-18)	1)CARE A2 (12-Aug-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.