

## Aries Agro Limited

October 04, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	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)	48.45	CARE A3+ (A Three Plus)	Reaffirmed
<b>Total</b>	<b>175.05</b> <b>(Rs. One hundred Seventy Five crore and Five lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Aries Agro Limited (AAL) is on account of long track record and experience of the promoters in the micronutrient industry, diversified product portfolio backed by wide spread distribution network. The ratings are further strengthened by average financial risk profile marked by moderate capital structure/debt service coverage indicators and resolution of major arbitrations in favour of the company.

However, the rating strengths are constrained by modest scale of operations, low profit margins, AAL's profit margins susceptible to volatile input prices/currency fluctuations, low awareness amongst farmers, intensely competitive nature of the industry, and high dependence of the micronutrient industry on monsoon. Furthermore, the rating strengths are tempered by company's support to subsidiaries/group companies by way of investment in equity and loans and advances, and working capital intensive nature of operations as evident from elongated operating cycle owing to higher credit period offered to customers in India as per industry standards as well as considerable receivables outstanding after the closure of United Arab Emirates (UAE) based subsidiaries and consequent impact on the profitability of AAL at a group level due to fixed cost incurred for UAE units.

The ability of AAL to increase scale of operations while managing its incremental working- capital requirements effectively and improve profitability margins, and maintain moderate debt levels as envisaged are the key rating sensitivities. Furthermore, any adverse impact on the cash flows or credit risk profile of the company due to additional support in any form to any group entities or inordinate delay in resolution of receivables outstanding in UAE based subsidiaries is a key rating monitorable.

### 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 June 30, 2018. Mr. Rahul Mirchandani, Chairman and Managing Director, and Mr. Jimmy Mirchandani, Executive Director, spearheads the overall operations of AAL with each 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 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 capital structure***

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

The company's total debt majorly comprises of working capital bank borrowings followed by term availed to fund capital expenditure, and others. AAL's capital structure is moderately geared as marked by an overall gearing of 0.93 times as on March 31, 2018.

#### ***Resolution of major arbitrations***

The company was in 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, the same is resolved in FY18/FY19 via orders passed by the Appellate Tribunal in Hyderabad and Mumbai in favour of the company.

#### ***Key Rating Weaknesses***

##### ***Ceasing of manufacturing in UAE since FY16/FY18 albeit partly shifted in India in FY18***

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 FY18 (no operations till date in FY19) 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, total investments, loans and advances by AAL in above two entities is Rs.77.62 crore (around 53% of standalone tangible net worth) as on March 31, 2018.

##### ***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 June 30, 2018, around 48% of outstanding debtors are from receivables of the two UAE units). The same is reflected in an operating cycle of 360 days in FY18.

##### ***Modest scale of operations***

In FY18 (refers to the period April 1 to March 31), the company reported a moderate growth rate of 11.89% per annum on a consolidated level in gross sales at Rs.350 crore. AAL's income is directly linked to agricultural activities in the country and depends upon climatic conditions including good monsoon amongst others.

##### ***Low profitability margins at profit after tax level***

The profit before interest, depreciation, and tax (PBILDT) margin declined to 16.31% in FY18 from 17.22% in FY17; majorly on account of higher freight cost incurred in FY18 and fixed cost incurred due to closure of UAE units. Furthermore, the interest and finance cost increased in FY18 owing to increase in limit in FY18 in India due to increase in installed capacity, interest on loan paid to others (interest free prior) amongst others. However, saving on depreciation cost due to closure of UAE unit resulted in a positive impact impacted on the overall profitability. The profit after tax (PAT) margin improved to 3.10% in FY18 from 2.15% in FY17 albeit the same continues to remain lower.

##### ***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.

##### ***Profit margins susceptible to volatility in raw material prices/forex fluctuation risk***

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. Although, natural hedging is available due to export business, the company does not have a formal hedging policy and is undertaken on need basis. Thus, the company continues to be exposed to foreign currency fluctuation risk in case of a timing difference.

**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 June 30, 2018. 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. 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 contributed 18% of consolidated sales in FY18 and is undertaken on demand basis. AAL's manufacturing facility is spread across four locations in India.

### Consolidated financials of AAL

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	254.03	293.20
PBILDT	43.74	47.81
PAT	5.45	9.09
Overall gearing (times)	0.80	0.93
Interest coverage (times)	1.87	1.65

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Analyst Contact:

Name: Mr. Vikash Agarwal

Tel: 022 6754 3405

Board: 022 6754 3456

Email: [vikash.agarwal@careratings.com](mailto:vikash.agarwal@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

### 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.

#### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### Annexure-1: Details of 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	-	-	-	48.45	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 2018-2019	Dates & Ratings assigned in 2017-2018	Dates & Ratings assigned in 2016-2017	Dates & Ratings assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	126.60	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Jan-18)	1)CARE BBB+ (12-Aug-16)	-
2.	Non-fund-based - ST-BG/LC	ST	48.45	CARE A3+	-	1)CARE A3+ (05-Jan-18)	1)CARE A2 (12-Aug-16)	-

**CONTACT****Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691