

Rating Rationale

Aries Agro Ltd.

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities amounting to ₹ 163.36 Crs of Aries Agro Ltd. ('AAL' or 'The Company')

Facility**	Previous Amount Rated (₹ Crs)	Present Amount Rated (₹ Crs)	Tenure	Previous Ratings (Feb, 2020)	Ratings Assigned*
Fund based	135.80	136.16	Long Term	BWR BBB Stable	BWR BBB Stable Reaffirmed
Non Fund Based	25.20	27.20	Short Term	BWR A3+	BWR A3+ Reaffirmed
Total	161.00	163.36	INR One Hundred Sixty Three Crores and Thirty Six Lakhs Only		

** Details of facilities given in Annexure I.

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rating Action/Outlook:

Brickwork Ratings (BWR) has reaffirmed a long-term rating to BWR BBB (Stable) and short-term rating to BWR A3+ to the bank loan facilities of Aries Agro Ltd (AAL or the company).

The rating affirmed factors in the company's experienced promoters, established a long track record of over five decades with a demonstrated execution capability, diversified product portfolio with wide spread distribution network spread across multiple states and improved debt protection metrics and comfortable financial risk profile. However, these strengths are partially offset by decline in profitability margins and tangible network, significant support extended to a subsidiary, the working capital intensive nature of operations with an elongated operating cycle and inherent risk of the industry along with intense competition.

The outlook is Stable as the company was able to sustain revenues from business operations in FY20 and H1FY21; which provides revenue visibility in the medium term.

BWR has principally relied upon the consolidated audited financial results of AAL upto 31st March 2020, H1FY21 unaudited financials and projected financials for FY21 and FY22 and publicly available information/ clarifications provided by the company's management.

Ongoing Expansion: The company is setting up a plant at Vijayawada, Andhra Pradesh and doing capex at its existing plant in Chhatral, Gujarat which is to be completed by end of February 2021. The total cost of the capex plan at both plants is around Rs 10.56 crs for which it has availed a term loan of Rs. 5.00 crs from Canara bank and the remaining Rs. 5.56 crs will be funded through internal accruals. The company is setting up the new plant at Vijayawada with a



capacity of 9,000 metric tonne per year (MTPY) for expansion of business to cater or sell their products to southern states of India and manufacture plant nutrients. There will be no change in the overall production capacity of the company which is 95,400 MTPY after the new plant at Vijayawada becomes functional. As certain old machineries will be scrapped which will reduce the production capacity of Chhatral and Hyderabad plant will reduce by 4,000 MT and 5,000 MT respectively.

Credit Strengths

- **Established track record of operations and experienced management:**

The company commenced its operations in 1969 and has a successful track record of more than five decades in the existing agrochemical business line. AAL's long track record and the extensive experience of promoters have helped establish relations with various stakeholders for its business. The company was established and is managed by the Mirchandani family, holding 52.66% equity stake in AAL as of December 31, 2020. Furthermore, the promoters are assisted by a team of experienced professionals in managing the company's daily business operations.

- **Diversified product portfolio:**

The company manufactures & sells nutrients including chelated micronutrients, speciality fertilisers, secondary nutrients and water soluble NPK fertilizers for plants and currently owns around 85 brands. The product portfolio finds application at various stages of farming.

- **Wide spread distribution network through established relationship with distributors:**

The company's strong distributorship emanates from a strong network of 6800 plus registered dealers & distribution network. They are currently serving in 27 states.

- **Improved debt protection metrics and comfortable financial risk profile :**

Debt coverage indicators, the interest service coverage ratio (ISCR) and debt service coverage ratio (DSCR), improved to 1.66x and 1.30x, respectively, in FY20 from 1.51x and 1.18x, respectively, in FY19. The gearing improved to 0.74x in FY20 from 0.81x in FY19. The total operating income (TOI) on consolidated basis stood at Rs. 296.14 Crs with a profit after tax (PAT) of Rs. 7.80 crs in FY20. In H1FY21 the company achieved a TOI of Rs. 205.40 Crs with a PAT of Rs. 16.98 Crs, and an ISCR of 3.05x .

Credit weaknesses

- **Significant support extended to a subsidiary:**

AAL has extended significant funding support to Golden Harvest Middle East FZC, UAE by way of equity investment and short term loans (₹ 135.34 crs as of March 31, 2020), a subsidiary operating in the trading business of agrochemicals.

- **Decline in profitability margins and tangible network:**

Operating profit margins on consolidated basis declined to 14.28% in FY20 from 16.49% in FY19. PAT margins also declined to 2.63% in FY20 from 2.90% in FY19. Tangible network declined to Rs. 202.82 crs in FY20 from Rs. 212.58 crs in FY19.

- **Working capital intensive nature of operations with elongated operating cycle:**

AAL sells its products to dealers/distributors who in turn offer credit periods 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's holds a huge stock of inventory thus leading to high inventory days. Thus, AAL's operations are working capital intensive as is evident from the operating cycle for FY20 which stood at 304 days (373 days in FY19), however it improved in FY20.

- **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.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). BWR 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 which has also impacted the working capital cycle adversely and thus they rely on support from AAL. The entities considered in the consolidated financial statements are : Aries Agro Care Private Limited, India [AACPL] Aries Agro Equipments Private Limited, India [AAEPL], Mirabelle Agro Manufacturing Pvt Ltd, India [MAMPL] and Golden Harvest Middle East FZC, UAE [GHME]

RATING SENSITIVITIES

Upward: BWR may revise the ratings upward in the case of a substantial improvement in the scale of operations, alongwith sustenance of net debt to EBITDA below 2.50 x, and ISCR above 3.00x .

Downward: BWR may revise the rating downward in the case of a reduction in the EBITDA margins, deterioration in debt protection metrics (ISCR below 2x) and scale of operations.

Liquidity Position (Adequate)

The company has an adequate liquidity position. There are only long term secured/unsecured borrowings from banks/NBFC amounting to Rs. 14.34 Crs as on 31st March 2020. Against a CPLTD (current portion of long term debt) of Rs 4.25 Crs in FY20, the company had a cash



accruals of Rs. 6.71 Crs in FY20. The company projected to generate cash accruals of Rs. 26.72 Crs in FY21 against a CPLTD of Rs 5.41 Crs, thereby indicating an adequate liquidity position.. The average utilisation of working capital bank limits of the company stood around 74% during the last 12 months ending 31st Dec 2020.

About the entity:

Aries Agro Limited (AAL) was founded in 1969 by the 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 December 31, 2020. It 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. It is listed on both Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). They have 4 manufacturing units in India with a capacity of 95,400 MT per annum which are located in Mumbai, Hyderabad, Chhatral & Lucknow. It is an ISO certified company. They have 85 brands which are successfully tested at over 100 research institutions in India and abroad.

Key Financial Indicators (Consolidated)

Key Financials			
		31/Mar/2019	31/Mar/2020
Result Type	Units	Audited	Audited
Total Operating Income	₹ Cr	265.32	296.14
OPBDIT	₹ Cr	43.76	42.28
PAT	₹ Cr	7.70	7.80
Tangible Net Worth	₹ Cr	212.58	202.82
Total Debt/TNW	Times	0.81	0.74
Current Ratio	Times	1.47	1.42

Key covenants of the instrument/facility rated: Not Applicable

Status of non-cooperation with previous CRA (if applicable): Reason and comments: NA

Any other information: NA

Rating History for the last three years: (Including suspended/withdrawn ratings)

S.No	Name of Instrument	Current Rating (2021)				Rating History				
		Type	Tenure	Amount (In Crs)	Rating	03 Feb 2020			2019	2018
1	Bank Loan	Fund Based	Long Term	136.16	BWR BBB Stable Reaffirmed	FB	135.80	BWR BBB Stable	-	-
		Non Fund Based	Short Term	27.20	BWR A3+ Reaffirmed	NFB	25.20	BWR A3+	-	-
Total				163.36	INR One Hundred Sixty Three Crores and Thirty Six Lakhs Only					

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria - Manufacturing Sector Entities](#)
- [Short Term Debt](#)

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Aries Agro Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	CC/WCDL	130.80	-	130.80
	Term Loan	2.86	-	2.86
	Covid Loan-WC	2.50	-	2.50
	BG/LC	-	27.20	27.20
TOTAL				163.36

Total: INR One Hundred Sixty Three Crores and Thirty Six Lakhs Only

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