

## Rating Rationale

Aries Agro Ltd

3 Feb 2020

**Brickwork Ratings assigns the ratings for the Bank Loan Facilities amounting to ₹ 161 Cr of Aries Agro Ltd ('AAL' or 'The Company')**

Facility**	Present Amount Rated (₹ Crs)	Tenure	Present Ratings
<b>Fund Based</b>	135.80	Long Term	<b>BWR BBB</b> Stable
<b>Non-fund Based</b>	25.20	Short Term	<b>BWR A3+</b>
<b>Total</b>	<b>161.00</b>	<b>INR One Hundred Sixty One Crores Only</b>	

\*\* Details of facilities given in Annexure I.

Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

### Rating Action/Outlook:

BWR has assigned a long term rating of BWR BBB (Stable) and Short term rating of A3+.

The rating factors in the experience of the promoters along with the company's established market position & operational track record in agrochemical business of more than four decades, wide spread distribution network, diversified product portfolio, satisfactory operational & financial performance during FY19 and H1FY20.

However, the rating is constrained by susceptibility to volatility in input price & currency fluctuations, presence in intensely competitive nature of the industry with low awareness amongst the end consumers (farmers) and regulations governing agrochemical business.

The outlook is stable as the company has been able to sustain the revenues from business operations in H1FY20.

Going forward, the ability of the company to improve upon its operating cycle by materially contracting its receivable cycle while maintaining its operating profit margin would be the key rating sensitivities.

BWR has principally relied upon the consolidated audited financial results of AAL upto 31st March 2019, H1FY20 provisionals and projected financials for FY20 and FY21 & publicly available information & information/ clarifications provided by the company's management.

### **Key Rating Strengths**

- **Extensive experience of management & group track record** - AAL commenced commercial operations in 1969 and has a successful track record of more than four decades in the agrochemical industry. The company was established and is managed by the Mirchandani family, holding 52.66% equity stake in AAL as of December 31, 2019. Dr. Rahul Mirchandani, Chairman and Managing Director, spearheads the overall operations of AAL having more than two decades of experience in the agrochemical industry.
- **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.
- **Satisfactory Financial risk Profile:** Gearing has improved to 0.81 times in FY19 from 0.82 times in FY18. TNW improved to INR 212.58 Cr in FY19 from INR 208.99 Cr in FY18. Operating profit margins improved to 16.49 % in FY19 from 15.96 % IN FY18. In H1FY20 company has achieved an total operating of INR 157.10 Crs with a PAT of INR 14.13 Crs.

### **Credit 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 the operating cycle for FY19 which stood at 373 days (329 days in FY18). However, it is expected to improve 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 detailed below.

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 Private Limited, India [AACPL] Aries Agro Equipments Private Limited, India [AAEPL], Golden Harvest Middle East FZC, UAE [GHME] and Amarak Chemicals FZC, UAE [Amarak]

## RATING SENSITIVITIES

**Positive:** BWR may revise the rating outlook to positive, in case of improved operating income & profitability margins, reduction in operating cycle & debt levels and strengthening the financial risk profile of the company.

**Negative:** BWR may revise the rating outlook to Negative, in case reduction in operating income & profitability margins, increase in operating cycle & debt levels thereby impacting the credit profile of the company.

### Liquidity Position (Adequate)

The company has an adequate liquidity position. There are long term borrowings from banks amounting to INR 13.27 Crs as on 31st March 2019. Against a CPLTD of INR 4.04 Crs in FY19, the company had a cash accruals of INR 10.12 Crs in FY19 and with a CPLTD of INR 4.25 Crs in FY20, the company has projected to generate cash accruals of INR 15.16 Crs in FY20, thereby indicating a comfortable liquidity position for repayment of debt obligations.

### About AAL:

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, 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. It is listed on both BSE & NSE. They have 4 manufacturing units in India with a capacity of 95,400 MT per annum which are located in Mumbai, Hyderabad, Chattral & Lucknow. They have 85 brands which are successfully tested at over 100 research institutions in India and abroad. It has 4 subsidiaries- 2 in India & 2 in UAE. There are no trading activities in subsidiaries. Going forward Golden Harvest Middle East (GHME) will be only doing marketing of Aries Agro Ltd products as well as for Amarak. Aries Agro Ltd & Amarak will export its products through GHME from February 2020.

In August 2019, the company has sold 26% stake in Amarak Chemicals FZC (which is currently dormant) due to which its stake in step down subsidiary has reduced to 49% from 75%. There are large amounts of unrealized receivables around ~INR 70 Crs in Amarak which will no longer be part of consolidated financial results in FY19-20 which would result in better financial performance.

### Key Financial Indicators (Consolidated)

Key Financials			
	Units	31/Mar/2018	31/Mar/2019
Result Type		Audited	Audited
Total Operating Income	INR Crs	294.73	265.32
OPBDIT	INR Crs	47.05	43.76
PAT	INR Crs	9.09	7.70
Tangible Net Worth	INR Crs	208.99	212.58
Debt/TNW	Times	0.82	0.81
Current Ratio	Times	1.53	1.47

### Key Financial Indicators (Standalone)

Key Financials			
	Units	31/Mar/2018	31/Mar/2019
Result Type		Audited	Audited
Total Operating Income	INR Crs	264.50	265.32
OPBDIT	INR Crs	45.75	45.21
PAT	INR Crs	14.15	14.90
Tangible Net Worth	INR Crs	146.03	156.52
Debt/TNW	Times	1.02	1.03
Current Ratio	Times	1.46	1.41

**Key Covenants of the Instrument/Facility Rated:** Not Applicable

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

**Any other information:** NA

### Rating History for the last three years:

S.No	Name of Instrument	Current Rating (2020)				Rating History		
		Type	Tenure	Amount Rated (In Crs)	Rating	2019	2018	2017
1	Bank Loan	Fund Based	Long Term	135.80	BWR BBB Stable	NA	NA	NA
		Non Fund Based	Short Term	25.20	BWR A3+	NA	NA	NA
	Total			161.00	INR One Hundred Sixty One Crores Only			

### COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria - Manufacturing Sector](#)

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**Aries Agro Ltd**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Canara Bank	Cash Credit	47.80	-	47.80
		Bank Guarantee/ILC	-	5.20	5.20
2	HDFC Bank	Cash Credit	7.00	-	7.00
		WCDL	14.00	-	14.00
		Bank Guarantee/LC	-	20.00	20.00
3	Axis Bank	Cash Credit	61.00	-	61.00
4	ICICI Bank	Cash Credit	6.00	-	6.00
<b>TOTAL</b>					<b>161.00</b>

**Total: INR One Hundred Sixty One Crores Only**



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