

Press Release

Amar Bio-Tech Limited (ABL)

01 February, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.7.50 Cr
Long Term Rating	SMERA B/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned the rating of '**SMERA B**' (**read as SMERA B**) on the above mentioned bank facilities of Amar Bio-Tech Limited (ABL). The outlook is '**Stable**'.

ABL, incorporated in 2000, is engaged in the production, processing and marketing of hybrid seeds, mainly cotton.

List of key rating drivers and their detailed description

Strengths:

Experienced management: ABL, incorporated in 2000, is engaged in the production, processing and marketing of hybrid seeds, mainly cotton. The company is headed by Mr. Bhaskara Rao Bollineni, Mr. Bollineni Krishnaiah and Mr. Kolappa Thanu Pillai (Directors), who possess over two decades of experience in the agro product industry.

Healthy growth rate in operating income: ABL registered healthy operating income growth rate at a (CAGR) of 60.27 percent for the period FY2014-16 on account of increase in order book position for Bt cotton seed. The operating income stood at Rs.36.32 crore in FY2015-16 as compared to Rs.23.23 crore in FY2014-15. Operating income stood at Rs.30.00 crore from April – November 2016 (Provisional).

Weaknesses:

Fluctuations in operating profitability: The operating profitability has shown fluctuating trends in the past owing to volatility in prices of raw cotton seeds. The EBIDTA margins stood at 3.09 per cent in FY2015-16 compared to 0.60 per cent in FY2014-15.

Moderate financial risk profile: ABL's financial risk profile is moderate marked by gearing of 0.71 times as on 31 March, 2016 (0.87 times as on March 31, 2015). The debt protection metrics is moderate with interest coverage ratio at 2.21 times in FY2015-16 as against 1.29 in FY2014-15. However, the liquidity profile is stretched with instances of overdrawning of working capital limits.

Working capital intensive operations: The operations are working capital intensive with Gross Current Assets (GCAs) of 184 days on account of high debtor and inventory levels.

Vulnerability of margins to fluctuation in the prices of agriculture commodities: ABL's operating profitability is susceptible to volatility in raw material prices of raw cotton seeds which are seasonal.

Intense market competition: The company operates in a highly fragmented agro-commodity industry with large number of organised and unorganised players.

Analytical approach: SMERA has considered the standalone business and financial risk profiles to arrive at the rating.

Applicable Criteria

- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes that ABL will maintain a stable outlook and benefit over the medium term owing to the established market position and extensive experience of its promoters. The outlook may be revised to 'Positive' if the company registers substantial increase in profitability margins supported by healthy revenue growth or significant improvement in the capital structure as a result of equity infusion by promoters. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in profitability margins or significant deterioration in the financial risk profile due to higher than expected debt-funded capex or elongated working capital cycle.

About the Rated Entity

ABL, incorporated in 2000, is a Hyderabad based company engaged in production, processing and marketing of hybrid seeds, mainly cotton. The company has about 22 varieties of hybrid commercial cotton seeds approved by the Genetic Engineering Approval Committee under the Ministry of Environment & Forests.

For FY2015-16, the company registered profit after tax (PAT) of Rs.0.77 crore on operating income of Rs.36.32 crore as against PAT of Rs.0.17 crore on operating income of Rs.23.23 crore in the previous year.

Status of non-cooperation with previous CRA: India Ratings and Research (Ind-Ra) has withdrawn its ratings on bank facilities of ABL due to lack of adequate information.

Any other information: N.A.

Rating History for the last three years:

Name of Instrument/ Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	7.50	SMERA B/Stable (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	N.A.	N.A.	N.A.	7.50	SMERA B/Stable (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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