

Press Release

Karnataka Agro Chemicals March 06, 2023 Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	60.78	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	5.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	65.78	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 65.78 Cr bank facilities of Karnataka Agro Chemicals (KAC). The outlook is '**Stable**'.

Rationale for Rating Reaffirmation

The rating action factors in the group's established position in the fertilisers and micronutrient premixes industry, extensive experience of the promoters, wide product portfolio and distribution network along with geographical presence in the domestic market, longstanding relation with its stake holders, above average financial risk profile, adequate liquidity. The ratings are constrained by Intensive working capital of the business and intense competition in the industry, exposure to risks related to regulated nature of the fertilizer industry in India and to volatility in raw material prices and agro- climatic risks.

About Company

Karnataka Agro Chemicals (KAC) is based in Bengaluru, was established in 1974 by Dr. G.P Shetty. KAC manufactures various fertilizer products, viz.: Single Micronutrients (Chelated & Non Chelated), Major Nutrients, Secondary nutrients (Chelated & Non Chelated), Multi Micronutrients (Chelated & Non Chelated), Plant Bio-Activators, Plant Growth Regulator and Spray Adjuvants. It has manufacturing units at Nagarbhavi and Tumkur in Karnataka; Ghaziabad in Uttar Pradesh and Bhubaneshwar in Odisha. Its daily operations are managed by Mr. Mahesh Shetty.

About the Group

Incorporated in 2000, Multiplex Bio-Tech Private Limited (MBPL) is the one of the Group Company of MULTIPLEX group. MBPL is promoted by Mr. Mahesh Gopalakrishna and his family members. It is engaged in manufacturing and marketing of micronutrients fertilizers and various bio Products, viz. Multiplex Organic Manure, Bio-Fertilizers, Bio-Fungicides, Bio Insecticides and Bio Pesticides. The Group has manufacturing unit located at Nelamangala near Bangalore (Karnataka). It is also engaged in manufacturing of agro based bi-products which are used for agriculture crop growth.

Incorporated in 1996, Multiplex Agricare Private Limited (MAPL) was promoted by Mr. Mahesh Gopala Krishna. It is engaged in the manufacturing and marketing of zinc sulphate, copper, magnesium, manganese and marketing of pesticides and insecticides. Its manufacturing unit is located in Peenya, Bangalore (Karnataka).

Analytical Approach Extent of

Consolidation

Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

The team has consolidated the business and financial risk profiles of Karnataka Agro Chemicals (KAC), Multiplex Agricare Private Limited (MAPL) and Multiplex Bio-Tech Private Limited (MBPL), together referred to as the 'Multiplex Group' (MG). The consolidation is in

view of the common management, strong operational & financial linkages between the entities, corporate guarantee of Multiplex Bio-Tech Private Limited for the bank facilities of KAC and unsecured loans by MBPL to KAC and MAPL

Key Rating Drivers

Strengths

Promoters' extensive experience and established track record in fertiliser industry

Multiplex Group' was set up in 1974 by Dr. G.P Shetty a first -generation entrepreneur. Multiplex Group is closely held by the promoter family. The second generation of the promoter family manages the business, with managing director Mr. Mahesh G Shetty looking after daily operations. The promoters of the Group have extensive experience of over four decades in the fertilizer industry which has led to understanding of the dynamics of the market and enabled them to establish healthy relationships with its suppliers and customers to get repeated business. It is having a strong network in Karnataka and presence in Tamil Nadu, Telangana and Andhra Pradesh as well.

Diversified clientele and product portfolio

The group supplies its products to various states through a network of 25 branches and 4000+ dealers. Its product portfolio has more than 150 brands. The operations are characterised by a high level of vertical integration across its fertilisers divisions, thereby allowing high value addition and diversification. It manufactures a wide range of products—from micro nutrients to bio fertilisers and water-soluble fertilisers. The Group's ability to suitably modify its product mix in response to changes in market conditions partially mitigates the risks associated with cyclicality. The group also has a well-entrenched distribution network spanning across the country. Acuité believes that strong diversity in clientele and product profile helps maintain steady growth in revenue and profitability.

Financial risk profile-Above Average

Group's financial risk profile is above average marked by comfortable coverage indicators and moderate net worth of Rs.60.63 crore as on 31 March 2022 as against Rs.53.43 crore as on 31 March, 2021. The improvement is majorly on account of accretion of profits. Group has moderate leverage policy. The gearing (debt-equity) improved by 27 bps in last three year and stood at 1.95 times as on 31 March, 2022 as against 1.85 times as on 31 March, 2021.(2.22 times in FY 20)

Coverage indicators stood comfortable as evident from Interest coverage Ratio of 4.97 times for FY2022 as against 4.25 times for FY2021. The DSCR stood at 2.05 times for FY2022 as compared to 3.40 times for FY2021.

The Net Cash Accruals to Total debt stood at 0.21 times as on FY2022 and 0.22 times for FY2021. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 3.69 times in FY2022 as against 3.75 times for FY2021.

Augmentation in business risk profile

Multiplex Group operations has improved reflected by growth in consolidated revenue from operations by 6.19 % in FY2022 to Rs. 324 crore as against Rs. 305.12 crore for FY2021. There is minuscule improvement in operating profit margin of the group which is improved by 44 bps and stood at 12.12% in FY2022 as against 11.68% in FY2021. Furthermore, the net profit margin of the company improved by 39 bps and stood at 5.46 percent in FY2022 as against 5.07 percent in FY2021.

Weaknesses

Vulnerability of profitability to agro-climatic conditions, regulatory risks and seasonality of the fertiliser business

The Group's sales and profitability remain susceptible to agro-climatic conditions, development of pest resistant genetically modified (GM) seeds and regulatory risks inherent in the business. Agriculture sector in India remains vulnerable to the vagaries of monsoon as the area under irrigation remains low which exposes fertiliser sector to volatility as well. The group faces intense competition from small, unorganised players, and has to compete with strong players in markets where it plans to expand its reach necessitates constant marketing and branding expenditure.

Intensive working capital management

Working capital operations of the group are intensive in nature as reflected by its gross current asset (GCA) days of around 140 days as on March 31, 2022 as against 160 days as on March 31, 2021 which is on the account of higher inventory days.

Inventory days improved and stood at 95 days as on March 31 FY2022 as against 102 days as on March 31 FY2021. Debtor days also improved by 37 days over the period of three years. Debtor Days stood at 21 days as on March 31 FY2022 as against 28 days as on March 21 FY2021 (58 days in FY 20). The creditor days stood at 195 days as on March 31, FY2022 as against 191 days as on March 31, 2022.

Group has availed the banking facilities of fund-based and non-fund based which includes overdraft and letter of credit facilities. Utilization of fund based working capital limits remains high at ~92% in last one year ended January 2023. Non fund based limit utilization stood at ~83% in last one year ended January 23

Rating Sensitivities

Significant improvement in scale of operations and improvement in profitability.
significant stretch in working capital.
Substantial adverse impact of any regulatory/policy change.
Sustained improvement in scale of operation with sustained operating margin

Material Covenants

None

Liquidity Position

Adequate

Liquidity profile of the group remained adequate marked by adequate net cash accruals against its maturing debt obligations. Group generated cash accruals of Rs. 24.28 Cr in FY2022 as against its maturing debt obligation of 7.59 Cr in the same period.

Utilization of fund based working capital limits remains high at ~92% while non fund based limit utilization stood at ~83% in last one year ended January 23. Group has unencumbered cash and bank balances of Rs. 9.06 crore as on March 31, 2022. In addition to this group has unencumbered Fixed deposits of Rs. 11.45 crore. The current ratio of the group stood at 0.83 times as on March 31, 2022.

Outlook: Stable

Acuite believes that Group will continue to benefit over the medium term due to its established market position, established relations with its customers and suppliers and diversified geographical reach and product portfolio. The outlook may be revised to "Positive", if the Group demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining / improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if Group's generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or any significant investments in group entities, or any significant withdrawal of capital there by impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	324.00	305.12
PAT	Rs. Cr.	17.70	15.46
PAT Margin	(%)	5.46	5.07
Total Debt/Tangible Net Worth	Times	1.95	1.85
PBDIT/Interest	Times	4.97	4.25

Status of non-cooperation with previous CRA (if applicable)

CRISIL vide its press release dated 20 September 2022, has mentioned the rating of KAC to '[CRISIL]B+/Stable/A4' Issuer Not Cooperating as on 20 September 2022

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to

the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Dec 2021	Term Loan	Long Term	16.76	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	25.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Long Term	5.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	19.02	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Karnataka Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	Simple	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	19.02	Simple	ACUITE BBB- Stable Reaffirmed
Karnataka Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	Simple	ACUITE BBB- Stable Reaffirmed
Karnataka Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	16.76	Simple	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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