

Adani Agrifresh Limited

March 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	9.26 (reduced from Rs.17.41 crore)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Long-term/Short-term Bank Facilities	145.00	CARE BBB-; Stable/ CARE A3 [Triple B Minus; Outlook : Stable/ A Three]	Reaffirmed
Short-term bank Facilities	10.00	CARE A3 [A Three]	Reaffirmed
Total Bank Facilities	164.26 (Rupees One Hundred Sixty Four Crore and Twenty Six Lakh only)		

*Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Adani Agrifresh Limited (AAFL) continue to derive strength from its parentage being a wholly owned subsidiary of Adani Enterprises Ltd. (AEL; rated 'CARE A; Stable/CARE A1') and the demonstrated track record of financial support extended by it to AAFL; its established operations in apple trading business and logistical advantages derived from proximity of its controlled atmosphere storage (CAS) facility in the key apple cultivation region of Himachal Pradesh.

The ratings, however, continue to be constrained by AAFL's weak debt coverage indicators, high leverage on account of erosion in net worth, susceptibility of its operations to adverse climatic conditions, volatility in prices of apples along with its perishable nature and working capital intensive operations. The ratings also factor losses incurred by it during FY17, FY18 (refers to the period April 1 to March 31) as well as 9MFY19 (refers to the period April 01 to December 31).

Sustained improvement in its profitability and debt coverage indicators while efficiently managing its working capital requirements along with continued availability of need-based support from its parent (AEL) and improvement in its capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and support extended by AEL: AAFL derives significant financial flexibility and technical/managerial resources for its operation from AEL, due to AEL's vast experience in the trading and logistics business. AEL had infused preference share capital of Rs.56.96 crore as promoters' contribution for establishment of the CAS facilities. Furthermore, AEL has been extending support to AAFL in the past to fund the cash losses, meet its debt servicing and for ensuring smooth operations.

Established operations with low logistics cost due to proximity to apple growing region: AAFL owns one of the largest CAS facilities in the country, set up under Technology Mission for Integrated Development of Horticulture in North Eastern and Himalayan States, a capital subsidy scheme of the Government of India. Furthermore, the company receives capital subsidy from government for setting up CAS facility (including its expansion). These facilities being located in Himachal Pradesh, the second largest apple producing region in the country, the cost of sourcing is relatively lower and it also benefits from low transportation cost.

Key rating weaknesses

Continued losses incurred by the company; albeit financial support from AEL: The TOI of AAFL remained stable at Rs.178.52 crore during FY18 as against Rs.179.16 crore during FY17. Further, it earned a profit at PBILDT level during FY18 as against a loss at PBILDT level during FY17 because of improvement in sales realisations of Himachal Apple which contributed about 80% of the company's gross sales. Interest cost (after netting off interest received on loans and advances extended to related parties) and depreciation amounting to Rs.35.49 crore led to AAFL incurring cash losses during FY18. Based on provisional results for 9MFY19, AAFL reported profit of Rs.5.04 at PBILDT level mainly due to higher realizations of both Himachal Apple and Imported Apples. However, the company reported cash losses of Rs.10.12 crore mainly due to interest paid on the promoter loans. Further, AEL has been supporting the company by infusing unsecured loans to fund losses as well as for repayment of debt obligations.

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

High leverage and weak debt coverage indicators: Loss incurring operations during the past years has resulted in significant erosion of net worth base of AAFL. Erosion of net worth along with high debt levels (excluding loans from related parties to the extent of advances extended to related parties) to fund capital expenditure and working capital has resulted in high leverage for AAFL. The unsecured loans extended by the company have been largely wound-up as on December 31, 2018. Loss incurring operations and high debt levels has led to weak debt coverage indicators of AAFL during FY18 and 9MFY19.

Working capital intensive operations, exposure to adverse climatic conditions and perishability risk due to significant inventory holding period: AAFL majorly uses its cash credit facility during the apple procurement period which gradually reduces by April of every year on it being sold in the off-season. AAFL's average operating cycle was shortened from 145 days during FY17 to 117 days during FY18 on account of lower inventory holding period. The company had low current ratio of 0.39 times as on March 31, 2018 on account of high level of short-term borrowings. AAFL's business operations are highly exposed to the risk of adverse climatic conditions in its primary sourcing region of Himachal Pradesh. The company sources its apples in August – November period, during the peak harvest season of apples to minimize the sourcing costs while maintaining its quality and sells the same during the off-peak period of December – April. However, the price of apples is market determined and thus the company is susceptible to adverse movement in its price due to its significant holding period and perishable nature of apples. Higher procurement cost and lower realization have resulted in loss incurring operations of the company in the past.

Liquidity Analysis: The liquidity of AAFL is primarily underpinned from the fact that it has access to timely need-based financial support from AEL. In the past, AEL has demonstrated its track record of regularly extending financial support to fund the losses and ensuring timely debt repayments of AAFL. Further, the working capital fund based limits of the company are based on cash budget submitted by the company instead of drawing power. The average utilization of the fund based limits on the month-end closing basis remained at a comfortable level of 39% for the twelve months ended December 2018. The debt repayments during the near to medium term are minimal in size.

Analytical Approach: Standalone along with factoring support extended by AEL

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short-term instruments](#)

[Rating Methodology – Factoring Linkages in Ratings](#)

[Financial ratios – Non-financial sector](#)

[CARE's Rating Methodology - Wholesale Trading](#)

About the company

Incorporated in December 2004, AAFL is a 100% subsidiary of AEL which is a part of Adani Group. AEL, on a standalone basis, has mainly coal trading, power trading and coal Mine Developer & Operator (MDO) businesses, whereas, Adani Group as a whole has evolved in to a diversified conglomerate and is engaged in various businesses across a range of sectors, primarily energy (including coal mining), power generation (including renewable) and transmission, port operations, logistics, warehousing, oil and gas exploration and city gas distribution. The group is also involved in agro-processing (including sale of branded edible oil) and agro-commodity warehousing. AAFL is engaged in the trading of farm products, mainly apples, and has established CAS facilities at three places in Himachal Pradesh with an aggregate installed capacity of 22,630 metric tonne per annum (MTPA) as on March 31, 2018. AAFL markets its fruits under the brand 'Farm-Pik'.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income (TOI)	179.16	178.52
PBILDT	(2.73)	1.75
PAT	(41.86)	(33.76)
Overall Gearing (times)	8.17	9.93
Adjusted Gearing*	3.23	3.52
Interest coverage (times)	NM	NM

A: Audited; * netting off the unsecured loans from related parties; NM- Not Meaningful

During 9MFY19, as per provisional results, AAFL reported TOI of Rs.89.26 crore and net loss of Rs.18.44 crore.

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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

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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 Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Working Capital Limits	-	-	-	10.00	CARE A3
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	135.00	CARE BBB-; Stable / CARE A3
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	10.00	CARE BBB-; Stable / CARE A3
Term Loan-Long Term	-	-	June 2021	9.26	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - ST-Working Capital Limits	ST	10.00	CARE A3	-	1)CARE A3 (30-Mar-18)	1)CARE A3 (10-Mar-17)	1)CARE A3+ (29-Mar-16)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	135.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (30-Mar-18)	1)CARE BBB-; Stable / CARE A3 (10-Mar-17)	1)CARE BBB / CARE A3+ (29-Mar-16)
3.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	10.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (30-Mar-18)	1)CARE BBB-; Stable / CARE A3 (10-Mar-17)	1)CARE BBB / CARE A3+ (29-Mar-16)
4.	Term Loan-Long Term	LT	9.26	CARE BBB-; Stable	-	1)CARE BBB-; Stable (30-Mar-18)	1)CARE BBB-; Stable (10-Mar-17)	1)CARE BBB (29-Mar-16)

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