Aries Agro Ltd

Scrip Code	Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
ARIAGREQNR	Fertilizers	111.0	Buy at CMP and add on declines	Rs. 86-95	Rs.143 & Rs.171	2-3 quarters

Price Chart

Stock Details	
BSE Code	532935
NSE Code	ARIES
Bloomberg	ARIE:IN
Price (Rs) as on 27 Nov, 2014	111.0
Equity Capital (Rs Cr)	13.0
Face Value (Rs)	10
Eq. Shares O/s (Cr)	1.3
Market Cap (Rs.)	142.2
Book Value (Rs)	130.6
Avg. Volume (52 Week)	36491
52 wk H/L (Rs)	117.7/39.3
Shareholding Pattern	
(As on Sept, 30 2014)	
Promoters	52.74
Institutions	7.30
Non Institutions	39.96
Total	100

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Aries Agro Limited (AAL) was founded in 1969. AAL, (together with its five subsidiaries) manufactures and sells micronutrients and other nutritional products for plants and animals in India.

Triggers

- Backward integration through acquisitions/setting up of foreign companies abroad
- Diversified product portfolio to cater to different requirements of farmers in India
- Strong Consumer Connect to enable AAL to increase its market share
- Widespread Distribution network and nationwide manufacturing units with enough capacity
- Unique business model helps reduce receivables to a decent extent
- Targeting new markets abroad through UAE subsidiary.

Risks/Concerns

- Requirement of working capital is substantial
- Foreign exchange fluctuation & raw material availability and price fluctuation
- Growing competition from existing players and new entrants

Conclusion and Recommendation

Despite its slow growth in topline and bottomline over the last few years, we feel that this could accelerate going forward and the stock remains a value buy. At the current market price (of Rs 111) the company is trading at 6.4x its FY15E consolidated EPS of Rs 17.3 and 5.8x its FY16E consolidated EPS of Rs 19.0. Investors could buy the stock at the CMP and add on declines to Rs.86-95 band (4.5-5x FY16E EPS) for sequential targets of Rs 143-171 (7.5-9x FY16E EPS) for the next 2-3 quarters.

Financial Summary (Consolidated)

Particulars (Rs in Cr)	FY11	FY12	FY13	FY14	FY15E	FY16E
Total Operating Income	177.8	236.3	251.8	297.8	339.5	395.5
Operating Profit	40.5	46.6	49.6	60.5	64.8	77.4
OPM (%)	22.8	19.7	19.7	20.3	19.1	19.6
Other Income	3.1	4.7	2.6	1.9	1.2	1.5
Reported Profit After Tax	18.6	14.3	14.0	16.2	22.4	24.7
PATM (%)	10.5	6.1	5.6	5.5	6.6	6.3
Reported EPS (Rs.)	14.3	11.0	10.8	12.5	17.3	19.0

(Source: Company, HDFCSec; E-Estimates)

Company Profile

Aries Agro Limited (AAL) was founded in 1969. AAL, together with its five subsidiaries, manufactures and sells micronutrients and other nutritional products for plants and animals in India. Its products include multi-micronutrient fertilizers, chelated micronutrient fertilizers, bio-degradable complexes of plant nutrients, water soluble NPK fertilizers, value added secondary nutrients, natural and biological products, water treatment formulations, and other nutritional and agricultural products. The company also offers a range of farm sprayers and plant protection chemicals, including pesticides, insecticides, fungicides, and herbicides. In addition, it provides veterinary products comprising protein and mineral feed supplements for poultry, cattle, and broilers; and herbal milk booster for dairy cattle, as well as offers seeds, farm equipment, machinery, etc. The company also sells its products to Sri Lanka, Bangladesh, Pakistan, Ecuador, Brazil, the United States, Taiwan, Kenya, Vietnam, Australia, and New Zealand.

AAL tapped the capital market in December 2007 by offering 45 lakh equity shares (of FV Rs 10 each) at a price of Rs 130/share to fund the five-fold expansion of its production capacities (Setting up of new manufacturing units at Gujarat, Lucknow and Hyderabad), purchase of plant and machinery for its Mumbai Unit, advance for existing office building renovation/redevelopment (expected to be completed in September 2015), capex for mobile marketing, working capital needs and general corporate expenses.

Manufacturing Setup

AAL has 6 plants in India and two in AAL subsidiaries in UAE. The plants are presently located at Bangalore, Mumbai, Hyderabad, Kolkata, Gujarat, Lucknow, Sharjah, UAE (Subsidiary Company) and Fujairah, UAE (Subsidiary Company). Indian plants have a total production capacity of 84,600 MT p.a. and the current capacity utilization stands at 48%. The international manufacturing facilities at UAE have shown improved capacity utilization (during FY14) which currently stands at 39 % of the total installed capacity overseas of 70,800 MT p.a. The Fujairah manufacturing unit is the 1st in Asia and 15th in the world for Sulphur Bentonite fertilizer. The company is proposing to add additional plant and machinery at existing unit in Mumbai and set up new units at Ahmedabad and Hyderabad to manufacture micronutrients.

Marketing Network

AAL has a very wide distribution network across the country. It operates along a distribution channel comprising of about 6,400 + distributors and a direct retail touch point of more than 86,000 + dealers. Their reach extends to most of the major fertilizer consuming districts of the country with the retail outlets spread over 27 states in India. It also wants to enter new markets in India by expanding its distribution activities in states like Kashmir, Kerala, Manipur and Goa.

The marketing personnel directly visit villages to educate the farmers on the concept of chelation and the various benefits of micronutrients. This has helped the company to establish a close connectivity with the farmers and has helped to increase their customer base. They have 25 branches spread across all over India covering almost 1,99,000 villages. AAL market their products through Super Distributors, Distributors, Marketing Agents and Dealers/ Retailers.

Subsidiaries

AAL has five subsidiaries viz Aries Agro Care Pvt Limited, Aries Agro Equipments Private Limited, Aries Agro Produce Private Limited, Golden Harvest Middle East FZC and a step down Subsidiary viz Amarak Chemicals FZC.

The operations of Aries Agro Care Pvt. Ltd. commenced in the financial year 2008-09 but discontinued the activity in the financial year 2012-13 and had no business activity in the financial year 2013-14. The Company incurred losses to the tune of Rs 0.90 lakhs amongst others on account of amortisation and legal and professional charges.

The business operations of Aries Agro Equipments Pvt Ltd commenced in the year 2009-10 in agricultural sprayers but discontinued the activity in the financial year 2013-14. During the Financial Year 2013-14 the Company has a small Turnover of Rs. 0.54 lakhs and incurred a loss of Rs. 10.12 lakhs.

The above two Companies are Wholly Owned Subsidiaries of the Company. There was no business activity in other Subsidiary namely Aries Agro Produce Pvt. Ltd. During the Financial Year 2013-14 the Company has incurred a loss of Rs. 0.24 lakhs

As regards the overseas subsidiary M/S. Golden Harvest Middle East FZC (75% stake by AAL) with an installed capacity of 10,800 MT p.a., is in its sixth year of operation, has generated a total sale of Rs 33.27 crore with a profit of Rs 2.91 crore for the year 2013-14.

M/s. Amarak Chemicals FZC, which is a step down Subsidiary of Aries Agro Limited with an installed capacity of 60,000 MT p.a., is in its fourth year of operation, has generated a total sale of Rs 47.58 crore with a profit of Rs 4.11 crore for the year 2013-14.

AAL overseas manufacturing units (of Subsidiaries) have started supplying to Brazil, Australia, New Zealand, Sri Lanka, Pakistan, Bangladesh, Vietnam, Taiwan, Ecuador, Trinidad, Zambia, Kenya, Singapore and United Kingdom. International sales accounted for 27% of total group consolidated revenue in FY14. Distributors are being appointed on an ongoing basis and the company expects export and global sales to continue to grow and form 30% of the group revenues of the company by FY15.

Shareholding pattern

Particulars (%)	Sep-14	Jun-14	Mar-14	Dec-13	Sep-13
Indian Promoters	52.74	52.74	52.74	52.74	52.74
Mutual Funds/UTI/Banks	7.30	7.24	8.37	8.79	10.75
Corporate	10.51	11.96	10.09	9.87	9.58
Public & Others	29.45	28.06	28.80	28.60	26.93
Totals	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(Source: Company, HDFCSec)

SBI Magnum Comma Fund is holding 7.24% stake in AAL with 9.42 lakh equity shares as on Sept 2014.

Indian Agricultural Industry

India is presently the world's largest producer of pulses and the second largest producer of rice and wheat in the world. The country is also the second largest producer of sugar, after Brazil.

Agriculture is expected to grow at 4.6 per cent in 2014. Agriculture production of food grains this year is expected to break the 2013 record of 259 million tonnes (MT). More importantly, agricultural profitability has increased over the last decade with record increases in MSPs (minimum support prices for agricultural produce) for all covered crops. MSP increase in the past 10 years, between 2004-05 to 2014-15, vary from about 125 per cent for foodgrains such as wheat and paddy to over 200 per cent for pulses like moong dal.

India is also set to record the highest ever food grain production. The Government of India revised its estimate, stating that the country would collectively produce 264.28 MT of food grain as compared to 257.13 MT last year.

At 157.35 million hectares, India holds the second largest agricultural land globally. All the 15 major climates are found in India and the country also possess 45 of the 60 soil types in the world. India is the largest producer of pulses, milk, tea, cashew and jute, and the second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton and oilseeds.

Agriculture is the primary source of livelihood for 58 per cent of the country's population. Total food grains production in India reached an all-time high of 259 million tonnes (MT) in FY13. The country is among the 10 leading exporters of agricultural products in the world, with total agricultural exports expanding at a compound annual growth rate (CAGR) of 22.3 per cent to US$ 42.37 billion over FY07-13.

The Government of India realises the importance of agriculture to the development of this nation and hence has adopted several initiatives and programmes for this sector's continuous growth. Notable among them are Rashtriya Krishi Vikas Yojana (RKVY); National Food Security Mission (NFSM); National Horticulture Mission (NHM); Gramin Bhandaran Yojana; Integrated Scheme of Oilseeds, Pulses, Oil palm, and Maize (ISOPOM), etc.

Road Ahead

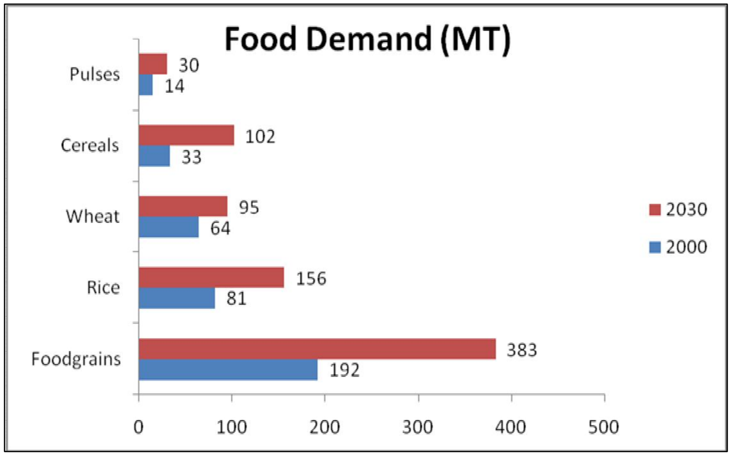
The Indian agriculture sector is expected to grow with better momentum in the next few years owing to increase in investment in agricultural infrastructure such as irrigation facilities, warehousing and cold storage.

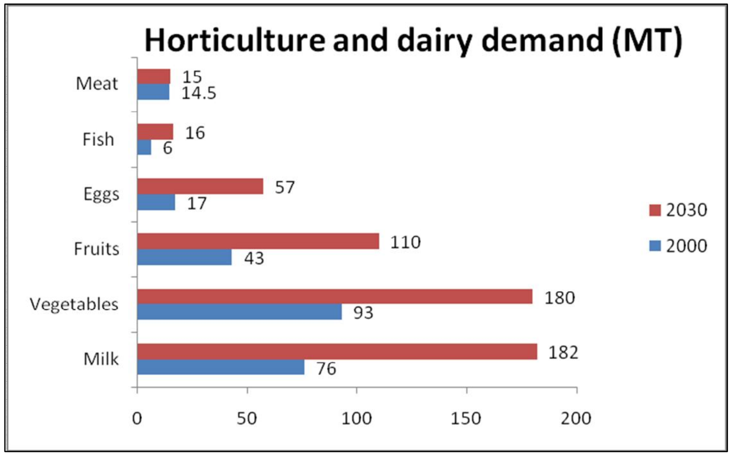
India has the second-largest arable land but has one of the lowest agri productivities (0.6kg/ha vs 7/13 in US/China). Yield enhancement will increase demand for all agri inputs; pesticides/commercial seeds are used only in 30%/25% of arable land and per hectare use is 20% of global average. Rising farmer awareness (access to technology and driven by participants) and labour cost (structural) and shifting consumption patterns (processed food needs) will fast pace the adoption of quality agri inputs.

Increased efforts from the private sector to educate farmers about the benefits of using quality agri inputs have helped the farmers to derive better commercial value from their produce. In addition, rising MSPs and government spends have benefited sector growth. As a result, the adoption of quality agri inputs (such as agrochemicals, hybrid seeds, and specialty fertilisers) has increased. Factors such as rising labour costs and growing demand for high-quality produce from food processors/organized retailers are leading to higher adoption of quality agri inputs.

Indian food preferences too are changing from direct grain consumption to indirect grain consumption (such as meat, poultry, and dairy) which along with rising affluence will increase per capita food consumption.

Indian Council of Agricultural Research (ICAR) estimates that India's food grain requirements would jump from 192MT in 2000 to 355MT by 2030 (CAGR of 2%). The required growth in fruits and vegetable would be even higher at a CAGR of 3%.





Triggers

Backward integration through acquisitions/setting up of foreign companies abroad

AAL had invested in a couple of companies in the United Arab Emirates which helped the company to steadily grow its business and also enhance the customer base globally.

The set up of Golden Harvest Middle East FZC in Sharjah was strategically important to AAL Agro as an assured in-house overseas manufacturing base for the flagship brands in the AAL range. With most raw materials, Chelating agents and minerals required for the manufacturing of Chelated micronutrients being imported into India, a plant located in the UAE provides an opportunity to save cost of production by applying automation and new age process engineering, save on high Indian customs duties [Micronutrient fertilizer end product attracts lower import duty (~22-23%) compared to duty on raw materials, which are organic chemicals or minerals (~26-27%)] and enhance the manufacturing capacity of the AAL Group to serve new markets in the Middle East, the SAARC region, North Africa and Europe.

Golden Harvest has been in commercial production since October 2008 and has till date manufactured Chelated Zinc, Chelated Magnesium, Chelated Calcium and Chelated Manganese. Though Aries Agro in India remains the largest buyer of Golden Harvest's output, the Chelates produced in the Sharjah plant have also been sold in retail and in bulk to customers located in various countries. Trials and laboratory tests have proved that Golden Harvest manufacturing facilities have produced products that are equal if not better in quality compared to similar products produced by world leaders in Chelated micronutrients.

Another investment overseas by AAL is in Amarak Chemicals FZC in Fujairah, UAE. Amarak Chemicals has been set up for the manufacture of Sulphur Bentonite 90% pastilles. Sulphur is one of the essential secondary nutrients for agriculture. The Sulphur Institute estimates that the worldwide deficiency of Sulphur nutrient in agriculture by 2015 is 11 Million MT, of which 70% of the shortage is in India and China. However, of the various manufacturing locations for Sulphur Bentonite (a highly specialized sulphur nutrient delivery system where 90% sulphur is uniformly coated over bentonite pastilles), none are located in the Asian region.

The commercial production from this unit started in July 2010. The prime reason why AAL invested in this company is its proximity to UAE's oil refineries for Sulphur byproducts, which are the main raw materials. Also Amarak Chemicals has a close proximity to Asian markets especially China and India, which currently have the largest deficit of Sulphur based secondary crop nutrients. Products of Amarak Chemicals can also be sold through AAL's wide distribution network in India. The Sulphur deficit globally continues to grow with every single passing year. The primary markets are Asia and Americas. Distributors have been appointed in the UAE, EU, Nepal & Bangladesh for tapping new markets.

Years	Golden Harvest (in AED Lakhs)		Amarak Chemicals (in AED Lakhs)		Total (in AED Lakhs)	
	Revenue	Profit	Revenue	Profit	Revenue	Profit
2009-10	200.67	35.12			200.67	35.12
2010-11	280.78	44.88	63.38	5.69	344.16	50.57
2011-12	295.14	41.03	228.04	4.94	523.18	45.97
2012-13	244.35	21.28	310.27	18.15	554.62	39.43
2013-14	213.95	18.74	305.99	26.27	519.94	45.01

Diversified product portfolio to cater different requirements of farmers in India

AAL is into the manufacture of micronutrients and other fertilizers that are used by farmers across the country. The products of the company are used in different applications of farming. It does not rely on just one particular activity in farming for its revenue but caters to all the segments of farming. The diversified product basket helps the company have a hedge against possible slowdown in the demand of any one product by the growth in other products. The product line of the company mainly includes Multi – micro nutrient complexes, Chelated micro nutrients, secondary nutrients, specialty water soluble NPK fertilizers, Antibiotics & hormones for agricultural use, seeds, insecticides, agricultural sprayers and veterinary products. Hence it serves to all cadres of farming activities and therefore holds an edge against its peers. Its flagship brands are Agromin (Chelated multi micro nutrients) – produced in 107 different crop, soil and geography specific variants and Chelamin (Chelated Zinc).

Product Category	Products	Application
Chelated Micronutrient Fertilizers	Chelated Zinc/Iron/Copper/Magnesium and Calcium	Used to cover the micronutrient deficiencies which ocurs due to specific soil and climatic conditions existing at the time of crop growth.
Farm Equipments	Sprayers	Used for spraying fertilizers & pesticides in all kind of crops.
Major Fertilizers	Macrofert, Fertimax NK/PK/NP/K	They are water-soluble compound fertilizers containing primary nutrients in a balanced ratio most suitable for foliar spray of the crops for higher yields.
Multi-Micronutrient Fertilizers	Agromin	It provides essential plant nutrients such as Zinc, Iron, Copper, and Manganese, Magnesium in partially Chelated form and Boron and Molybdenum in ideal predetermined proportions.
Other Nutritional products	Aries Total, Calbor, Marino, Zincomix, Ferromix, Sulfonite, Tetrabor	Provides combination of nutrients required for a plants growth and development
Plant Protection	Plantomycin, Agronaa	Provides antibiotic and hormonal benefit to plants
Veterinary Products	Poultrymin, Cattlemin, Bromin, Tracemin, Prot-o-Liv and Boon-o-Milk	Used for cattle and poultry growth and development

Strong Consumer Connect to enable AAL to increase its market share

Increasing awareness is key to increasing mind share and market share. The business of AAL is very competitive and the products of AAL are complex for the understanding of a common farmer. In Indian rural areas, most of the farmers' attitude towards products acts as the hindrance for better yield in the farms. If a particular farmer does not have the understanding about the product, then he prefers to remain a step back from the same and stay away from the product. Farmers once using a particular product, become so habituated that they are typically reluctant to switch to another product especially if they have very less or almost no knowledge about the product immaterial of how modern or useful the new product is. This demands the producing company to make the farmers aware of the products and its utilities in order to boost their market share and increase the mind share of the customers. With regards to this purpose AAL has taken some initiatives and runs several programmes, which enables it to keep the farmers in the product knowledge loop. Some of the initiatives taken by the company are as follows:

- AAL continues to strongly advocate good agricultural practices in all states of India. The activities are conducted under the supervision of Agronomist and Agricultural Research Institutions throughout the year.
- Farmer training and study tours are conducted by the company to advocate good agricultural practices and improvement of the Indian harvest. Some of the training given were as follows
    - Integrated Nutrient Management: The farmers were trained on the balanced use of major, secondary and micro-nutrients along with organic and biological nutrition sources.
    - Crop Management Technology: This is a holistic programme that covers all aspects from soil preparation, seed selection, choice of agricultural inputs, farm labour management, harvesting techniques and agri output

  - marketing methods. Farmers involved in this session meet experts in these various fields for extremely interactive sessions
  - Post-Harvest Management: Wastage of agricultural output post-harvest in transit and storage is a matter of serious concern. The usage of more effective techniques to ensure loss of output in storage and transit is an essential part of awareness building.
- The Company has organized during the year soil testing camps in Andhra Pradesh using Mobile Soil Testing Kits which analyse 7 parameters including pH, EC, NPK levels in soil, micro nutrient levels including Zinc, Ferrous, Boron, Organic Carbon, etc. Approximately 1800 Soil Health Cards were issued to farmers providing an additional service in order that they understand the specific nutrient needs of their farms.
- As part of the Aspen India Leadership initiative, the Company undertook a programme of adopting 4 villages in 4 states with an intent to develop good agricultural practices standard for key crops of India.
- AAL partnered with Confederation of Indian Industry's India @ 75 National Volunteering Week (12th January to 18th January, 2014), during which a series sources of activities were undertaken in 6 states of Rajasthan, Andhra Pradesh, Odisha, Uttarakhand, Chhattisgarh and Maharashtra. The sessions focused on impact of climate change on Indian agriculture and how balanced plan nutrition and integrated crop management can help farmers deal with climate change.

The company also has a fleet of about 100 krishi vigyan vahans that are used for the benefit of farmers. All these initiatives help AAL have a strong consumer connect and therefore helps canvas its products and encourage buying by farmers across the nation and help the company in increasing its topline.

Widespread Distribution network and nationwide manufacturing units with enough capacity

AAL has a widespread distribution network enabling it to serve customers throughout the country. The demand for the products is not limited to any one particular state in India but is widely spread. The revenues are spread over almost all the states in the country and therefore the company enjoys the benefit of a large client base and wide distribution network. AAL claims to have proven capability to place a new product on 69000 retail shelves within 1 day of launch.

Though AAL has its footprint in most states in the country, there still remains scope for the company to expand its presence to the other states in the country. This will help the company enhance its topline to a significant extent and also improve its market share quite substantially going forward.

AAL also has its manufacturing units spread across the nation with the largest in Hyderabad (AP) followed by Ahmedabad (Gujarat). The other manufacturing units are located in Lucknow (Uttar Pradesh), Kolkata (West Bengal), Bangalore (Karnataka) and Mumbai (Maharashtra). The overall capacity of the company adds up to 84,600 MT from the total 6 manufacturing plants. The fact that these units are situated on the north, west, east and south India enables the company to cater to the growing demand from the surrounding areas efficiently and faster thereby pushing the sales of AAL. It has set up completely automated manufacturing facilities at Bangalore & Hyderabad, using 100% indigenous technology and components.

The current capacity of the company is enough for the company to address the growing demand of its products across the globe. The company hence is not required to incur any major capex in the coming years, which could lead to higher cash reserves for the company going ahead and also could enable the company to declare dividends in the years to come. Another key positive is that, due to enough capacities, the company stands at a good position to manufacture products even in case of a sharp surge in the demand; the company may not face the issue of lack of capacity thereby enabling to tap the maximum out of the growing demand of its products.

Years	Capacity Utilisation in India (%)	Standalone Sales (Rs in Cr)
2009-10	42	138.17
2010-11	47	155.99
2011-12	48	191.62
2012-13	45	186.76
2013-14	48	232.87

The total installed capacity for AAL in India is 84,600 MT which is constant in the above mentioned years.

Large player in the organized sector in micronutrients

AAL is undoubtedly the largest player in the micronutrients segment in the country, with a wide distribution network and strong presence across the nation. AAL is a pioneer of agricultural chelates using indigenously developed technology for chelation micronutrients. AAL is a brand leader in nutritional products for plant and animal health, manufactures a wide range of products under 65 Brands for plant nutrients crop protection chemicals and veterinary products.

AAL was the first to use chelation process. Chelation is an ideal delivery system for plant nutrition - inert in nature, environmentally sensitive and cost effective. When dissolved in water, chelated nutrients ensure optimal delivery of nutrients supplied to the soil with no wastage, fixation and other concerns.

AAL being a large player in this segment is bound to reap the benefits arising out of the same. The demand for the product is increasing with every passing day due to the above-mentioned features. The positive outlook for the company’s products in the coming quarters augurs well for AAL to increase its topline substantially.

Unpredictability of monsoon and other key demand drivers to push the growth of AAL further

The unpredictability in the monsoons has resulted in farmers switching to the phenomena called Micro Irrigation. Other features like increasing deficiencies and increasing exports further act as drivers of demand for AAL’s products. All these could help the company grow its topline. The key demand drivers are growing population, contract farming, change in cropping pattern, change in the eating habits, increasing awareness amongst farmers about the products, growing affluence, Govt. focus on enhancing agricultural productivity, hybrid/genetically modified seeds, shrinking agricultural land area and micro irrigation systems.

The Indian agriculture sector is seeing a revival in itself over the past few years. The farmers are becoming more educated and are now exposed to knowledge about the importance of micronutrients in order to both protect crops and enhance the productivity out of the farms. As time goes by, the number of farmers opting for such alternatives is bound to increase. This will drive the growth of demand for AAL's products over the coming years. Considering the fact that AAL has a very wide distribution presence across the country, the company could benefit out of the rising demand and enhance its topline going ahead.

Unique business model helps reduce receivables to a decent extent

AAL follows a unique and strategic method while dealing with the farmers. It does not directly sell to the farmers and uses the medium of distributors to reach the end consumers of its products. It means that AAL sells its products to the distributors who then sell them to the farmers. This reduces the risk of non-receipt of payments from the farmers to a large extent.

Going ahead, the company intends to follow the same strategic business model and hence the revenue growth seems stable and strong for the coming quarters. Typically, when dealing with a farmer, there lays an unforeseen risk of non-receipt of timely payments or even payment defaults from the farmers. Main reasons include poverty, improper/inadequate rainfall. Hence any company catering to the needs of the farming industry faces a risk of non-receipts of revenue on time. The company has efficiently managed to eliminate this risk by following the above business model.

Another key positive for AAL is that the company is not present in any price-control items. This helps the company to pass on the extra burden / sudden spike in the raw material costs to the consumers without too much fuss. This reduces the risk of incurring higher expenditure and reducing the profitability. (During FY14, the rising costs of raw materials, fuel, processing, labour, USD exchange rate and interest rates continued to remain a cause of concern and impacted the company's operations. As a result the company raised its billing rates in 3 quarters of FY14 for its entire range of products, a portion of the cost increase is yet to be passed on to the market.).

Efforts taken for reducing working capital

AAL has always recognized that its business is working capital intensive and with the objective of reducing working capital load, the Company has taken several steps like reducing number of brands from 84 to 65, number of Stock Keeping Units (SKU) were reduced by 67 Nos, sales depots were asked to maintain inventory of only the brands that provide them with 80% of their total turnover with the balance 20% being supplied on a need only basis. As a result of working capital control being established the number of days inventory reduced by 51 days and debtors cycle reduced by 12 days during FY14. As a result of working capital control being established the number of days inventory reduced to 194 days in FY14 from 245 days in FY13 and debtors cycle reduced to 149 days in FY14 from 161 days in FY13.

Innovation in products and reduction of cannibalization would help the company going forward

The company has consolidated its product range into 65 brands split into 5 major categories namely multi micronutrient complexes, chelated micronutrients, single specialty nutrients, water soluble NPKs and sprayers. A number of brands which were showing marginal growth or which substitutes within the existing range have been phased out.

The company has begun sales of a unique product for biological control of pests using horticultural mineral oil. This product has been launched in the name of Hortimin in two grades, one for apple crop and one for fruits and vegetables and is expected to yield good volumes in the coming years. The Company is also in the process of launching new nutritional products that provide silicon, iron and soil conditioning benefits. The company' s flagship brand, Agromin for soil application has successfully been launched in a new and improved granular form which provides slow release of essential micronutrients customized to the needs of various crops.

The company has also strengthened its efforts in promoting products in the institutional, government and international markets. The total revenue earned in this segment now constitutes 5% of the total revenue.

Peer Comparison

A lot of large fertilizer companies in India are also into micro nutrients. But for them this is a small part of their business. However in the case of AAL, it is totally focused on micro nutrients. Other fertilizer companies show a large amount of volatility in their sales and margins from year to year, while AAL has been quite steady (though slow in growth so far) in its topline and margins. For a large fertilizer company who wants to expand its micro nutrient business, AAL could be a good takeover candidate.

Financials

During FY14, consolidated revenue grew by 18% YoY to Rs 297.8 crore driven by robust performance of the standalone business which grew by 25%. Operating profit grew by 22% to Rs 60.5 crore. But due to high interest cost (rise of 19% YoY) to Rs 28.37 crore, reported PAT (after minority interest) grew by 17% to Rs 15.9 crore.

AAL's business does face seasonality and hence H1 of a financial year is subdued than H2. More specifically, Q1 of any financial year is the slowest quarter among the others. In H1FY15, on a consolidated basis, topline grew by 7% to Rs 132.3 crore. Both the quarters i.e. Q1/Q2FY15 recorded a similar topline growth. Operating profit for H1FY15 grew by 14% YoY to Rs 26 crore and Reported PAT grew by 17% YoY to Rs 9.8 crore.

In Q1FY15, raw material cost increased more than twice to Rs 20.5 crore vs Rs 8.5 crore in Q1FY14 and caused the operating profit to de grow by 33% YoY to Rs 10.9 crore. Hence in spite of low interest cost and tax, PAT de grew by 46% YoY to Rs 2.8 crore but was up QoQ.

In Q2FY15, there was a decline in raw material cost which was offset by higher other expenditure. Raw material cost decreased to 8% YoY to Rs 33.9 crore whereas other expenditure rose by 43% YoY to Rs 27.3 crore. Operating profit grew by 10% YoY to Rs 15.1 crore and reported PAT more than doubled to Rs 7.1 crore.

Risks/Concerns

- AAL's products are used by farmers. AAL has to give extended credit to their distributors and build up stocks for the peak season; hence the requirement of working capital is substantial.
- The company has huge imports and also indulges in some export business. Hence it is exposed to forex fluctuation risks. Any unfavorable movement in the rupee against the dollar could impact the margins of the company. It is also exposed to translation risks due to its subsidiaries abroad.
- Sharp fluctuations in the price, availability and quality of raw materials could cause delay and/or increase in costs and in turn would have a material adverse effect on their margins and results of operations.
- AAL may face growing / new competition from existing players and new entrants due to which its performance and profitability may be adversely affected.
- In India, agricultural activities depend to a major extent on monsoon and weather conditions. Any abnormal monsoon may ruin crops and in turn affect AAL's financial performance.
- Lack of awareness regarding the concept and its acceptance amongst the farmers is the main barrier to rapid spread of micronutrients and its application in the farming activities.
- The business of AAL is seasonal in nature and Q1 is the dullest quarter. This has been offset to some extent by its presence abroad which does not face major seasonal issues.
- Even though the business model of AAL reduces the receivable defaults due to the reliability on distributors, there still lies a risk of default in receivables, which could affect the functioning of the company.
- Almost 40% of the sales of AAL comes from traded goods. However going by the overall margins, this seems to be a business decision of make or buy.

Conclusion and Recommendation

AAL is a leader in nutritional products for plants, manufactures a wide range of products under 65 Brands of plant nutrients crop protection chemicals. It's diversified product portfolio and wide distribution network enables it to have an upper edge over its peers. Its product mix with multiple products targeting various strata of farmer is a huge entry barrier. The strategy of billing only the distributors and maintaining a relation with the farmers only on non financial parameters have been working pretty well for AAL over the past few years. This is expected to continue going ahead and ensure smooth flow of business for the company.

AAL also has wide distribution network in most of the states in the country. The production capacity of the company is large enough for the company to grow its operations for few more years without huge capex requirements.

The key features and characteristics of its products and its importance in the farming sector helps the company see further growth in the demand for its products going ahead. With more farmers being educated towards the importance of micronutrients in farming, AAL being a large player sees the demand for its products surging in the next couple of years.

The company currently stands in a very strong position to grab the opportunities in the micronutrients segment in the agriculture industry. Going ahead we feel that company could enhance its topline and bottomline substantially because of expected growth in the demand for its products. The experienced management, higher capacity utilization, widespread network, further scope for spreading across the nation and higher utility of its products could act as a trigger for AAL to grow in the coming years.

AAL has an equity capital of Rs 13 crore (FV is R s 10), approximate market cap of Rs 140 crore (long term borrowings of Rs.20 cr), consolidated sales for FY14 were Rs 297.8 crore (YoY increase of 18%). AAL can command a good value per share (if it got acquired) as it is present in a very niche business. In 2011, Coromandel International has acquired the entire 42.2 per cent promoters' stake in Sabero Organics Gujarat Limited (pesticides company). The all cash deal amounted to Rs 250 crore at Rs 160 per equity share a premium of around Rs 65 per share to the then prevailing stock price. The total valuation of the company stood at Rs 592.41 crore. Net sale of Sabero in FY10 was Rs.430 cr. The acquisition was funded through internal accruals. However this kind of valuation is possible for AAL only if the promoters are willing to exit for which there are no indications at present.

Despite its slow growth in topline and bottomline over the last few years, we feel that this could accelerate going forward and the stock remains a value buy. It is available at 0.7x FY16E consolidated BV. At the current market price (of Rs 111) the company is trading at 6.4x its FY15E consolidated EPS of Rs 17.3 and 5.8x its FY16E consolidated EPS of Rs 19.0. Investors could buy the stock at the CMP and add on declines to Rs.86-95 band (4.5-5x FY16 EPS) for sequential targets of Rs 143-171 (7.5-9x FY16E EPS) for the next 2-3 quarters.

Particulars (Rs in Cr)	FY11	FY12	FY13	FY14	FY15E	FY16E
Total Operating Income	177.8	236.3	251.8	297.8	339.5	395.5
Operating Profit	40.5	46.6	49.6	60.5	64.8	77.4
OPM (%)	22.8	19.7	19.7	20.3	19.1	19.6
Other Income	3.1	4.7	2.6	1.9	1.2	1.5
Reported Profit After Tax	18.6	14.3	14.0	16.2	22.4	24.7
PATM (%)	10.5	6.1	5.6	5.5	6.6	6.3
Reported EPS (Rs.)	14.3	11.0	10.8	12.5	17.3	19.0

(Source: Company, HDFCSec, E: Estimates)

Financials

Quarterly (Standalone)

Particulars (Rs cr)	Q2FY15	Q2FY14	% chg	Q1FY15	% chg	H1FY15	H1FY14	% chg
Income from Operations	71.5	64.9	10.1%	43.0	66.2%	114.4	104.8	9.2%
Other Operating Income	0.0	0.0		0.0		0.0	0.0	
Total Income	**71.5**	**64.9**	**10.1%**	**43.0**	**66.2%**	**114.4**	**104.8**	**9.2%**
Raw Material Cost	31.6	31.8	-0.5%	20.4	55.1%	52.0	42.5	22.3%

Employee Expenses	4.2	5.5	-24.5%	3.8	8.1%	8.0	9.3	-14.5%
Other Expenses	22.6	15.5	46.3%	12.1	87.0%	34.7	30.9	12.4%
Total Expenditure	**58.4**	**52.8**	**10.7%**	**36.3**	**60.7%**	**94.7**	**82.8**	**14.5%**
Operating Profit	**13.1**	**12.1**	**7.8%**	**6.7**	**95.9%**	**19.7**	**22.0**	**-10.6%**
Other Income	0.4	0.1	333.3%	0.3		0.7	0.2	
PBIDT	13.4	12.2	10.2%	7.0	92.6%	20.4	22.3	-8.3%
Interest	5.1	5.6		4.4		9.5	11.3	
PBDT	**8.4**	**6.6**	**26.3%**	**2.6**	**222.4%**	**10.9**	**11.0**	**-0.4%**
Depreciation	0.4	0.4	7.3%	0.4	7.3%	0.9	0.8	1.2%
PBT	7.9	6.2		2.2		10.1	10.1	
Tax (including DT & FBT)	0.6	2.5		0.7		1.3	4.0	
Adjusted Profit After Tax	**7.3**	**3.7**	**96.0%**	**1.5**	**399.3%**	**8.7**	**6.2**	**41.6%**
Exceptional Item	0.0	0.0		0.0		0.0	0.0	
Reported PAT	**7.3**	**3.7**	**96.0%**	**1.5**	**399.3%**	**8.7**	**6.2**	**41.6%**
EPS (Rs.)	5.6	2.9		1.1		6.7	4.8	
Equity	13.0	13.0		13.0		13.0	13.0	
			bps		**bps**			**bps**
OPM (%)	**18.26**	**18.67**	**-40.36**	**15.49**	**277.25**	**17.22**	**21.03**	**-380.75**
PATM (%)	**10.20**	**5.73**	**446.84**	**3.40**	**680.68**	**7.65**	**5.90**	**174.90**

(Source: Company, HDFCSec)

Quarterly (Consolidated)

Particulars (Rs cr)	Q2FY15	Q2FY14	% chg	Q1FY15	% chg	H1FY15	H1FY14	% chg
Income from Operations	81.0	75.6	7.2%	51.3	58.0%	132.3	123.4	7.2%
Other Operating Income	0.0	0.0		0.0		0.0	0.0	
Total Income	**81.0**	**75.6**	**7.2%**	**51.3**	**58.0%**	**132.3**	**123.4**	**7.2%**
Raw Material Cost	33.9	36.7	-7.7%	20.5	65.2%	54.4	45.2	20.3%
Employee Expenses	4.7	5.9	-21.4%	4.5	2.9%	9.2	10.5	-12.3%
Other Expenses	27.3	19.1	42.8%	15.3	78.4%	42.6	37.6	13.4%
Total Expenditure	**65.9**	**61.8**	**6.6%**	**40.4**	**63.2%**	**106.2**	**93.3**	**13.9%**
Operating Profit	**15.1**	**13.8**	**9.7%**	**10.9**	**38.9%**	**26.0**	**30.1**	**-13.4%**
Other Income	0.3	0.0	1000.0%	0.3		0.6	0.1	
PBIDT	15.5	13.8	11.9%	11.1	38.8%	26.6	30.1	-11.7%
Interest	5.8	6.4		4.7		10.5	12.4	
PBDT	**9.7**	**7.4**	**30.3%**	**6.4**	**51.0%**	**16.1**	**17.7**	**-9.0%**
Depreciation	2.4	2.3	2.1%	2.3	3.0%	4.7	4.5	3.8%
PBT	7.3	5.1		4.1		11.5	13.2	
Tax (including DT & FBT)	0.6	2.5		0.7		1.3	4.0	
Adjusted Profit After Tax	**6.7**	**2.6**	**154.2%**	**3.4**	**97.4%**	**10.1**	**9.2**	**9.3%**

Minority Interest	-0.3	-0.6		0.6		0.3	0.8	
Reported PAT	**7.1**	**3.3**	**114.9%**	**2.8**	**154.5%**	**9.8**	**8.4**	**16.6%**
EPS (Rs.)	5.4	2.5		2.1		7.6	6.5	
Equity	13.0	13.0		13.0		13.0	13.0	
			bps		**bps**			**bps**
OPM (%)	**18.68**	**18.25**	**43.10**	**21.25**	**-256.98**	**19.67**	**24.37**	**-469.28**
PATM (%)	**8.70**	**4.34**	**436.34**	**5.40**	**329.88**	**7.43**	**6.83**	**59.98**

(Source: Company, HDFCSec)

Profit & Loss (Standalone)

Particulars (Rs in Cr)	FY11	FY12	FY13	FY14
Income from Operations	**156.0**	**191.6**	**186.8**	**232.9**
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	156.0	191.6	186.8	232.9
Raw material consumed	57.8	81.5	73.9	98.4
Employee expense	14.7	18.6	20.5	23.1
Other Expenses	50.4	57.6	58.8	68.9
Total Operating Expenses	122.9	157.6	153.1	190.4
Operating Profit	**33.1**	**34.0**	**33.7**	**42.5**
Other Income	3.8	5.3	3.2	2.3
EBITDA	36.8	39.3	36.9	44.8
Interest	12.7	20.9	21.0	24.9
Depreciation	1.8	1.9	1.9	1.5
PBT	22.4	16.5	14.0	18.4
Tax (including FBT & DT)	7.6	5.5	4.3	6.6
Adjusted PAT	14.7	11.0	9.7	11.9
Exceptional Item	0.3	0.5	0.4	0.3
Reported PAT	**14.4**	**10.4**	**9.3**	**11.5**

(Source: Company, HDFCSec)

Profit & Loss (Consolidated)

Particulars (Rs in Cr)	FY11	FY12	FY13	FY14	FY15E	FY16E
Income from Operations	**177.8**	**236.3**	**251.8**	**297.8**	**339.5**	**395.5**
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Income	177.8	236.3	251.8	297.8	339.5	395.5
Raw material consumed	64.3	101.4	110.9	129.1	139.2	164.3
Employee expense	15.5	20.0	22.4	25.8	23.4	27.7
Other Expenses	57.5	68.3	68.9	82.4	112.0	126.2
Total Operating Expenses	137.2	189.7	202.2	237.3	274.7	318.1
Operating Profit	**40.5**	**46.6**	**49.6**	**60.5**	**64.8**	**77.4**

Other Income	3.1	4.7	2.6	1.9	1.2	1.5
EBITDA	43.7	51.3	52.3	62.4	66.0	78.9
Interest	12.5	22.6	23.9	28.4	29.0	36.0
Depreciation	3.2	7.6	8.1	8.7	9.0	12.0
PBT	28.0	21.1	20.3	25.3	28.0	30.9
Tax (including FBT & DT)	7.8	5.7	4.4	6.6	5.6	6.2
Adjusted PAT	20.2	15.4	15.9	18.8	22.4	24.7
Minority Interest	1.6	1.1	1.9	2.5	0.0	0.0
Reported PAT	**18.6**	**14.3**	**14.0**	**16.2**	**22.4**	**24.7**

(Source: Company, HDFCSec, E: Estimates)

Balance Sheet (Standalone)

Particulars (Rs in Cr)	FY11	FY12	FY13	FY14
Equity & Liabilities				
Shareholders' Funds	**117.5**	**125.4**	**132.2**	**140.4**
Share Capital	13.0	13.0	13.0	13.0
Reserves & Surplus	104.5	112.4	119.2	127.4
Non-Current Liabilities	**25.3**	**18.9**	**23.1**	**25.4**
Long Term borrowings	23.3	16.2	16.1	18.5
Deferred Tax Liabilities (Net)	2.1	2.1	6.4	6.4
Long Term Provisions	0.0	0.5	0.6	0.5
Current Liabilities	**157.0**	**165.0**	**181.8**	**159.6**
Short Term Borrowings	74.5	95.8	126.1	102.6
Trade Payables	41.6	33.0	32.0	27.3
Other Current Liabilities	33.3	28.8	18.4	20.1
Short Term Provisions	7.7	7.5	5.2	9.6
Total Equity & Liabilities	**299.9**	**309.3**	**337.1**	**325.4**
Assets				
Non-Current Assets	**68.8**	**69.9**	**70.8**	**66.0**
Fixed Assets	**50.8**	**49.7**	**50.6**	**45.8**
Gross Block	40.4	39.3	47.0	46.0
Depreciation	9.3	10.3	10.4	11.2
Net Block (Tangible Assets)	31.1	29.1	36.6	34.8
Intangible Assets	89.6	83.1	99.6	98.5
Capital Work-in-Progress	18.8	19.9	13.6	10.9
Non Current Investments	18.1	20.3	20.3	20.3

Current Assets	**231.0**	**239.4**	**266.2**	**259.4**
Current Investments	0.0	0.0	0.0	0.0
Inventories	84.2	102.8	102.4	99.5
Trade Receivables	48.9	68.6	82.4	95.1
Cash & Cash Equivalents	40.2	18.1	20.3	12.5
Short Term Loans & Advances	57.7	49.9	61.1	52.4
Total Assets	**299.9**	**309.3**	**337.1**	**325.4**

(Source: Company, HDFCSec,)

Balance Sheet (Consolidated)

Particulars (Rs in Cr)	FY11	FY12	FY13	FY14	FY15E	FY16E
Equity & Liabilities						
Shareholders' Funds	**129.4**	**139.8**	**159.2**	**176.8**	**193.2**	**214.8**
Share Capital	13.0	13.0	13.0	13.0	13.0	13.0
Warrant Allotment	0.0	0.0	0.0	0.0	0.0	0.0
Reserves & Surplus	116.4	126.8	146.2	163.8	180.2	201.8
Share application money pending allotment	0.0	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	**40.2**	**35.4**	**45.5**	**55.2**	**60.8**	**68.3**
Long Term borrowings	23.5	16.6	16.3	18.9	20.7	23.2
Deferred Tax Liabilities (Net)	2.0	2.1	6.4	6.4	7.0	8.0
Other Long Term Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Provisions	0.0	0.7	0.9	1.1	1.2	1.4
Current Liabilities	**175.4**	**204.5**	**224.8**	**218.9**	**243.7**	**278.6**
Short Term Borrowings	88.3	127.7	167.4	148.2	166.0	189.3
Trade Payables	45.7	42.9	34.9	41.2	45.4	52.2
Other Current Liabilities	33.5	26.1	17.1	19.5	21.4	24.7
Short Term Provisions	8.0	7.8	5.5	9.9	10.9	12.6
Total Equity & Liabilities	**345.1**	**379.7**	**429.5**	**451.0**	**497.7**	**561.8**
Assets						
Non-Current Assets	**112.3**	**106.7**	**116.9**	**113.0**	**121.5**	**135.1**
Fixed Assets	**110.6**	**104.9**	**115.1**	**111.1**	**119.3**	**132.6**
Goodwill On Consolidation	0.0	1.2	1.5	1.6	1.7	1.7
Gross Block	101.3	101.1	125.4	133.9	150.0	175.5
Depreciation	11.7	18.0	25.7	35.4	44.4	56.4

Net Block (Tangible Assets)	89.6	83.1	99.6	98.5	105.6	119.1
Intangible Assets	2.1	0.7	0.4	0.1	0.1	0.1
Capital Work-in-Progress	18.9	19.9	13.6	10.9	11.9	11.7
Non Current Investments	0.0	0.0	0.0	0.0	0.0	0.0
Long -term Loans and Advances	1.5	1.7	1.8	2.0	2.2	2.5
Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets	**232.7**	**273.0**	**312.5**	**337.9**	**376.2**	**426.7**
Current Investments	0.0	0.0	0.0	0.0	0.0	0.0
Inventories	108.4	127.7	134.8	136.8	150.4	168.5
Trade Receivables	55.3	88.1	100.6	131.8	147.6	169.7
Cash & Cash Equivalents	41.2	18.5	20.8	12.7	15.8	18.6
Short Term Loans & Advances	27.9	38.7	56.3	56.7	62.4	69.9
Other Current Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**345.1**	**379.7**	**429.4**	**451.0**	**497.7**	**561.8**

(Source: Company, HDFCSec, E: Estimates)

Key Ratios (Consolidated)

Particulars	FY11	FY12	FY13	FY14	FY15E	FY16E
No of Equity Shares	1.3	1.3	1.3	1.3	1.3	1.3
Current Market Price	111.0	111.0	111.0	111.0	111.0	111.0
Market Capitalization	144.3	144.3	144.3	144.3	144.3	144.3
Enterprise Value	214.9	270.0	307.2	298.7	315.3	338.2
FD EPS	14.3	11.0	10.8	12.5	17.3	19.0
Cash EPS (PAT + Depreciation)	16.7	16.8	17.0	19.2	24.2	28.2
PE(x)	7.8	10.1	10.3	8.9	6.4	5.8
Book Value (Rs.)	99.6	107.5	122.4	136.0	148.6	165.3
P/BV (x)	1.1	1.0	0.9	0.8	0.7	0.7
OPM (%)	22.8	19.7	19.7	20.3	19.1	19.6
PBT (%)	15.8	8.9	8.0	8.5	8.3	7.8
NPM (%)	10.5	6.1	5.6	5.5	6.6	6.3
ROCE (%)	16.8	15.4	12.9	15.6	15.0	15.7
RONW (%)	14.4	10.3	8.8	9.2	11.6	11.5
Debt-Equity	0.9	1.0	1.2	0.9	1.0	1.0
Current Ratio	1.3	1.3	1.4	1.5	1.5	1.5
Mcap/Sales(x)	0.8	0.6	0.6	0.5	0.4	0.3
EV/EBITDA	4.9	5.3	5.9	4.8	4.8	4.3

(Source: Company, HDFCSec, E: Estimates)

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