Modern Papers

March 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	**35.00 (Enhanced from 20.00)**	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+ (CE); Stable; [Double B Plus (Credit Enhancement); Outlook: Stable]**
Short Term Bank Facilities	**5.00**	**CARE A3+ (A Three Plus)**	**Rating removed from ISSUER NOT COOPERATING category and Revised from CARE A4+ (CE); [A Four Plus (Credit Enhancement)]**
Total Bank Facilities	**40.00 (Rs. Forty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Modern Papers (MP) derive strength from the experienced and resourceful promoters and being the partnership firm of Crystal Crop Protection Limited (CCPL) which holds 94% stake in MP. The ratings, further factor in the established brands of the group, wide distribution network and extensive product portfolio along with robust financial risk profile marked by the consistent growth in scale of operations, high profitability margins, comfortable capital structure and comfortable debt coverage indicators.

These strengths are, however, partially offset by its partnership nature of business, high dependence on CCPL for procurement of technical, working capital intensive operations, highly regulated & competitive nature of pesticides industry and vulnerability of the operations to agro- climatic conditions.

Further MP has not sought any moratorium on payments from its lenders under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Rating Sensitivities

Positive Sensitivities: *Factors that could lead to positive rating action/upgrade*

- Increase in TOI by more than 30% without impacting its profitability margins from the current levels on a sustained basis.
- Ability of the company to diversify its product portfolio and increase its presence in different geographies.

Negative Sensitivities: *Factors that could lead to negative rating action/downgrade*

- Significant Increase in the working capital Cycle beyond 170 days on a sustained basis
- Decline in income by more than 20% or decline in PBILDT Margin by more than 250 bps from the current levels in any of the year going forward
- Any change in shareholding or reduction of CCPL’s shareholding from current level.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

MP is promoted by Crystal Crop group and the flagship company of the group CCPL owns 94% stake in the firm. Both the entities are in the same line of business. MP benefits from the market position, experience and scale of CCPL. CCPL has more than 300 molecules (technical grade pesticides) registered for import from China and established supplier’s network, which provides the firm an access to highly regulated import market for technical grade pesticides. CCPL also has established portfolio of brands and wide distribution network which provides MP access to pesticide market across the country.

Mr. Nand Kishore Aggarwal is the Founder Chairman of the group. He has about four decades of experience in the field of manufacturing and formulation of agro chemicals. Mr. Aggarwal spearheads areas of R&D, new product development and other strategic initiatives. His son Mr Ankur Aggarwal is the Managing Director of the CCPL and has been associated with the group for the last ten years. Mr. Ankur Aggarwal looks after the overall management of the firm and is assisted by a qualified and professional management team.

Established brands, wide distribution network and extensive product portfolio

The group markets their products in over 28 states in India through 4 regional offices, 28 branch offices, about 1909 distributors and over 4488 preferred dealers as on March 31, 2020. Also, the group has a team of about 72 marketing professionals and over 800 field assistant as on March 31, 2020.

CCPL & MP have a portfolio of over 100 agrochemical products under the categories of Insecticides, Fungicides, Herbicides and Plant Growth Regulators. Some of the major products include Emamectin Benzoate, Cartap Hydrochloride, Carbendazim Technical, Imidachloropid and Glyphosate. In addition to that the company also exports its products (Emamectin, Deltamethrin Tech, Cypermethrin Tech, Altrazin, Macozeb etc.) to about 10 countries in Africa, Europe and Asia. The group has a spectrum of established brands which includes Billo, Confidence 555, Looper, Missile, Tribune, Eldrin, Lara, Nidan, Rapid, Clinton, Avtar, Sure, Crizole, Partner, Grofit, Extra Super, Topper-77, Abacin, Bavistin, Apex-50, Nutrozone among others. Further, CCPL has more than 300 molecules registered for import, which provide the company an edge over its competitors and also act as an entry barrier for new players. Off-patent products represent a highly profitable market for established generics manufacturer, who have registration capabilities, manufacturing facilities and marketing presence.

Strong financial profile

MP's financial profile risk is strong marked by the consistent growth in scale of operations, high profitability margins, comfortable capital structure and robust debt coverage indicators.

MP's income from operations has grown at a CAGR of about 10.78% during the period of FY18 to FY20. The growth in income is also backed by the growth in operations of CCPL. The company witnessed 7.67% growth in its TOI in FY20 to reach Rs. 201.03 crore as against Rs. 186.71 crore in FY19. Further the PBILDT margins have also improved significantly in FY20 to 14.49% from 9.51% in FY19 primarily on account of new products launched (in-house as well as through acquisition)

MP's capital structure is comfortable owing to the nil long term debt and low working capital borrowings. The overall gearing stood at 0.13x as on March 31, 2020 vis-à-vis 0.20x as on March 31, 2019. The other debt coverage indicators also improved as indicated by interest coverage ratio of 18.27x (PY: 7.80x) and total debt/GCA of 0.87x (PY: 1.83x) as on March 31, 2020.

H1FY21 Performance: In H1FY21, the company has reported TOI of Rs. 151.96 crore and PBILDT margin of 29.48%. Further, the total debt outstanding as on September 30, 2020 was Rs. 20.02 crore comprising of its working capital borrowings.

Adequate Liquidity

The liquidity profile of MP is adequate with free cash & bank balance of Rs. 7.16 crore as on September 30, 2020 against which it has nil debt obligations. The company does not have any major capex plans or debt repayments to be serviced with the overall gearing of 0.13x as on March 31, 2020. Further, the maximum CC utilization stood at 60% for the 12 month period ending September 2020. This provides sufficient headroom for the company going ahead, aiding its liquidity profile. The operating cycle of the company stood at 121 days in FY20 as against 155 days in FY19.

Further, MP have not availed any moratorium for its bank facilities, as available under the Covid-19 pandemic relief package of the Reserve Bank of India.

Industry Outlook

The domestic demand for agrochemicals is expected to remain elevated with favourable agronomical conditions such as good moisture in the soil and adequate water levels in reservoirs which bodes well for the winter crop/Rabi season. With the government propagating the development of the agricultural sector and with the recent proposals under the 'Aatmanirbhar Bharat' package pertinent towards the upliftment of the agrarian economy focused on boosting agriculture and its allied sectors (by strengthening its infrastructure and logistics), the demand for agrochemicals for the rest of FY21 seems sanguine. Some of the ambitious steps taken by the Government of India to receive the role of agriculture in the growth of Indian economy such as increasing MSPs, eNAM portal, and distribution of direct benefit transfer via PM Kisan Samman Nidhi have created a robust foundation to enhance farmer's income and encourage wider adoption of high quality seeds. Going forward, with acreage and crop prices both improving, the sector is structurally well-placed also considering the fact that that this year's Kharif harvest is slated to be a bumper crop and the farming community will be having good liquidity to spend money to safeguard their crop from pests and diseases in the Rabi season. Exports of agrochemicals are expected to remain steady during H2FY21. The pandemic has had limited impact on crop planting patterns and crops like wheat, rice and soya bean have shown strength. The domestic agrochemicals sector has a good opportunity to gain considerable market share in the global markets as customers are looking to diversify their supplies away from China. The industry is also trying to engage into backward integration for the manufacturing of technical grade pesticides as it wants to shift its reliance from China and become self-sufficient in the coming years.

Key Rating Weakness

Dependence on CCPL for procurement of technical

MP is completely dependent on CCPL for supply of raw materials- APIs for the technical. However approximately 65-70% of sales is made to CCPL and rest to other companies in the open market. Having import registration, CCPL imports technical grade pesticides from countries like China and supplies it to MP. MP in turn sells the finished product to CCPL, which supplies them to end consumers after branding.

Working capital intensive operations

The pesticide industry requires high working capital investment due to high inventory and long credit period. The commoditized nature of the products and seasonality factor (high demand during crop sowing seasons) makes the operations of the group highly working capital intensive. Around 60% sales for the whole year is done on the first half of the year and most of the sales are done on a credit of around 90 days to its customers, resulting in high debtors in the first half of the year. This results in high working capital requirement in first half of the year as compared to second half of the year.

Further, due to the seasonal demand for pesticides, the group is required to stack up variety of products as inventory in advance of the season resulting in high inventory holding period which is a common phenomenon across pesticide industry. This increases the inventory holding cost. Further, since pesticides are the last link in the agricultural operation, after having invested in seeds, fertilizers, etc., the farmers have little surplus money for purchasing pesticides. Therefore, providing credit is necessary to stimulate demand. Thus, due to such intrinsic nature of business, the group’s working capital requirement continues to remain high.

MP typically has elongated cash conversion cycles. The company maintains huge inventory of raw materials as well as finished goods to counter long lead time in imports and to maintain wide distribution network respectively. The operating cycle has however improved from 162 days in FY18 to 151 days in FY20 primarily due to the decrease in average inventory days. The average collection period continued to remain at 106 days in FY20.

Constitution of entity as partnership firm

MP being a partnership firm is exposed to inherent risk of the capital being withdrawn at time of personal contingency and firm being dissolved upon the death/insolvency of the partners. Further, partnership firm has restricted access to external borrowing as credit worthiness of the partners would be the key factors affecting credit decision for the lenders.

Highly dependent upon monsoon and climatic conditions

The pesticide industry derives its sales from the agriculture sector which is highly dependent upon monsoons as well as incidence of fungal/pest attack on crops and farm income. The sales and profitability of the pesticides industry depends largely on the prevalent agro-climatic conditions. To mitigate the risk the group has diversified its sales in terms of geography. Company has presence across all major states in India.

Highly regulated and competitive nature of operations

The pesticides industry is marked by heavy fragmentation with the absence of any player having sizeable market share. The intense competition leads to competitive pricing and lower margins. Traditionally, the Indian players have concentrated on marketing generic and off-patent products with little expenditure on R&D while MNCs have focused on developing patented molecules. The pesticides are regulated products and require prior registration with the relevant governing authorities in each country before they are allowed to be sold. Furthermore, the industry also faces regulatory risk due to prohibited usage of certain molecules. However, the group holds more than 100 registered products including both in technical grade as well as formulations.

As per the news article in June 2020, there was a proposed ban on 27 pesticides which are likely to “involve risk to human beings and animals however, as it was a draft order, no pesticide mentioned in the order has been banned as of now. The products put under the prohibited lists contribute 15-25% of domestic revenues of the group and are generic low cost products sold by almost all the domestic players.

Analytical approach: Standalone; however factoring in the business and operational linkages with CCPL.

Note: Earlier the ratings of MP were based on the credit enhancement in the form of unconditional and irrevocable Letter of Comfort (LOC) along with Board Resolution from CCPL. However, as the LOC is now not backed by Board Resolution of CCPL, CARE has changed its analytical approach to Standalone.

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
Criteria for Short Term Instruments
CARE’s Policy on Default Recognition
Financial ratios - Non-Financial Sector

[Rating Methodology-Manufacturing Companies]
[Rating Methodology for Pesticide Companies]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology: Notching by factoring linkages in Ratings]

About the Company
Established in August 2008, Modern Papers (MP) is a partnership firm of Crystal Crop Protection Ltd. (CCPL, 94%) and the promoters of CCPL (6%). MP is engaged in formulations of pesticides. The firm mainly procures technical grade pesticides from CCPL. Having import registration, CCPL imports technical grade pesticides from countries like China and supplies it to MP. MP in turn sells the finished product to CCPL, who supplies them to end consumers after branding. CCPL has established a manufacturing plant for Agrochemicals at Bari Brahmana, Jammu & Kashmir under MP to avail excise duty and income tax benefits offered by Government of J&K.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	186.71	201.03
PBILDT	17.76	29.13
PAT	13.56	22.03
Overall gearing (times)	0.20	0.13
Interest coverage (times)	7.80	18.27

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/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 - LT-Cash Credit	-	-	-	35.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	5.00	CARE A3+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB+; Stable	1)CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (01-Jul-20)	1)CARE BBB (CE); Stable; ISSUER NOT COOPERATING* (25-Dec-19) 2)CARE A (SO); Stable; ISSUER NOT COOPERATING* (01-Apr-19)	-	1)CARE A (SO); Stable (27-Mar-18)
2.	Non-fund-based - ST-BG/LC	ST	5.00	CARE A3+	1)CARE A4+ (CE); ISSUER NOT COOPERATING* (01-Jul-20)	1)CARE A3 (CE); ISSUER NOT COOPERATING* (25-Dec-19) 2)CARE A1 (SO); ISSUER NOT COOPERATING* (01-Apr-19)	-	1)CARE A1 (SO) (27-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	1. Networth to not fall below FY18 level of Rs. 115 crore 2. CCPL to maintain shareholding of more than 90% during the currency of the facilities 3. Loans and advances to/investment in related parties to not exceed beyond Rs. 39 crore 4. TOL/TNW<=1.00x
B. Non-financial covenants	1. CC limit interchangeable with LC only upto Rs. 10 crore. Total LC limit to not exceed Rs. 15 crore; BG limit not to exceed Rs. 5 crore

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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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