CARE Ratings
Professional Risk Opinion

India Pesticides Limited

December 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	70.00 (Enhanced from 45.00)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Revised from CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)
Short Term Bank Facilities	35.00 (Enhanced from 15.00)	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Bank Facilities	**105.00 (Rs. One Hundred Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of India Pesticides Limited (IPL) factors in the improvement in the overall financial risk profile of the company characterized by the sustained growth in total operating income and improvement in profitability during FY21 (refers to the period April 01 to March 31) and H1FY22 (Unaudited, refers to the period April 01 to September 30) supported by growth across all major segments. The revision also factors in the improvement in liquidity position, capital structure and debt coverage indicators of the company during FY21. Further, the ratings continue to derive strength from the long-standing experience of the promoters in the pesticides industry, its established track record of operations and strong competitive position of its key molecules in the national and international markets. The ratings take cognizance of listing of the company on stock exchanges during July 2021 wherein Rs.100 crore was raised through fresh issuance while Rs.700 crore was Offer for Sale by promoters.
The ratings, however, continue to remain constrained by the customer concentration risk, exposure to fluctuations in raw material prices and foreign currency exchange rates, vulnerability of operations to agro climatic conditions, regulatory risk inherent to the industry and fragmented & competitive nature of the pesticide industry.

Rating Sensitivities

Positives factors: Factors that could lead to positive rating action/upgrade

- Total operating income above Rs.1000 crore with PBILDT margins above 30% on a sustained basis.
- Ability of the company to diversify its product portfolio and its presence in different geographies.

Negatives factors: Factors that could lead to negative rating action/downgrade

- Significant increase in the working capital cycle of more than 145 days on a sustained basis.
- Decline in total operating income by more than 20% and decline in PBILDT margins below 20% on a sustained basis.
- Deterioration in its capital structure with overall gearing of more than 0.50x on sustained basis.
- Any ban on the sale of pesticides which contribute significantly to IPL's total operating income and may impact its financial profile adversely.

Detailed description of the key rating drivers

Key Rating Strengths

Sustained growth in scale of operations with improvement in profitability margins

IPL has reported healthy growth in the operating income over the past few years on the back of healthy domestic demand and growing exports with significant market share for few technical products (including Captan Technical). The total operating income during FY21 grew by 34% over FY20 primarily due to increased production coupled with launch of new products and improved realizations. The company continued to report growth in revenue in H1FY22 also with a growth on Y-o-Y basis of 6% largely on account of increase in sales of Captan and other technical products. The company has maintained healthy PBILDT margin over the years on the back of increased volumes with healthy margins and its leadership position in fungicides primarily Captan Technical. The PBILDT margin of the company improved to 28.90% in FY21 as compared to 21.15% in FY20 which further improved to 33.04% during H1FY22.

Improvement in the capital structure and debt coverage indicators

The company reported improvement in overall gearing and debt coverage indicators during FY21. The overall gearing improved and stood at 0.11x as on March 31, 2021 as against 0.16x as on March 31, 2020. The improvement was largely on account of

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

lower utilization of working capital loans coupled with improvement in networth due to accretion of profits to reserves. The interest coverage ratio also improved and stood at 55.15x for FY21 and Total debt to Gross cash accruals also reduced and stood at 0.21x for FY21. The company's net-worth shall further improve in FY22 on account Initial Public Offer (IPO) floated by the company in July 2021 through which the company and promoter raised Rs.800 crore. Post IPO, the promoter stake now stood at 66.17% as on Sep 30, 2021. The company out of Rs.100 crore has utilized towards general corporate purpose of Rs.20 crore while remaining has been kept as Fixed Deposits (FDs) with banks thereby improving the liquidity position of the company.

Promoter's long-standing experience in the pesticides industry
IPL is promoted by Mr. Anand Swarup Agarwal, a first generation entrepreneur. Mr. Agarwal has four decades of experience in the pesticides industry and is supported by an experienced team of professionals. Mr. Agarwal was the chief editor of Hindi Daily "Rashtriya Swarup" published by Swarup Publications (a group company) and a former director on the board of PNB Gilts Ltd. He has also served as non-executive director of Punjab National Bank. Mr Agarwal is ably supported by his two sons Mr. Vishal Swarup Agarwal and Mr. Vishwas Swarup Agarwal, both of them with post graduate qualification in Business Administration.

Strong competitive position of few of its molecules in the national and international markets
IPL's focus has been on developing few strategic products with high margin and limited competition. The company is majorly into manufacturing of technical. Technical Pesticides of the company constituted around 72% of its total sales in FY21 (72% of its total sales in FY20). The company has strong presence in the fungicides Captan Technical in India and in overseas market. Formulations constituted around 21% of its sales in FY21 (21% in FY20) with majority of sales in domestic market. The company is also manufacturing Pharma Intermediaries apart from manufacturing pesticides, which are further used in Dermatology industry and constituted around 7% of its sales in FY21 (8% in FY20).
The growth from the recently developed herbicide has been significant in the past two years which has lifted the overall scale of operations and profitability of IPL. The products of IPL are registered in 25 countries including France, Turkey, Mexico, Iran, Portugal, Australia, Japan, Sri Lanka, Serbia, UK, Spain, USA which is a step towards reducing company's dependence over the domestic markets. The company's focus has been to explore new technical grade pesticides for exports to increase the scale and profitability margin.

Key Rating Weaknesses
Working capital intensive nature of business
The pesticide industry requires high working capital investment due to high inventory and long credit period. The commoditised nature of the products and seasonality factor (high demand during crop sowing seasons) makes the operations of the group highly working capital intensive. This resulted in high working capital requirement by the company in first half of the year as compared to second half of the year.
Further, due to the seasonal demand for pesticides, the company 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 which 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.
During FY21, the operating cycle of the company has reduced and stood at 104 days as compared to 118 days in FY20. The improvement in operating cycle was largely due to improvement in collection period which got reduced from 136 days to 111 days. In FY21, the collection period improved as the company has started supplying herbicide wherein the credit period is around 2-4 months as compared to 3-6 months in fungicide.

Customer concentration risk and exposure to fluctuations in raw material prices
During FY21, the company's top 4 customers accounted for ~40% of the net sales. Although, a substantial part of sales are dependent over a small number of customers along with institutional sales made to companies with long standing track record with prominent presence in the domestic and international market namely UPL Ltd (rated CARE AA+; Stable/ CARE A1+), Rallis India Ltd., Syngenta India Limited, Syngenta Asia Pacific PTE Ltd, Sharda Cropchem Ltd. and Sapec Agro. These customers of IPL are the large formulators, which sells the formulation across the globe. Further, the company is exposed to the fluctuations in the raw material prices and other derivatives of crude oil.

Exposure to foreign currency fluctuation risk
About 57% of the revenue of IPL in FY21 has been from exports which exposes the company to inherent risk of foreign exchange fluctuation. However, IPL also import about 35% of its raw material requirement, which provide a natural hedge to some

extent. Apart from this company does not have any hedging mechanism as the total export sales are higher than the raw material imported. During FY21, the company booked a net forex gain of Rs. 2.06 crore (forex gain of Rs. 9.54 crore in FY20).

Vulnerability to agro-climatic conditions along with highly regulated and competitive nature of operations
IPL's income and profitability depends highly on the agro-climatic conditions prevalent in the domestic and the global markets. 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. The intense competition and focus on off-patent products leads to competitive pricing and lower margins in the domestic market. However, the increasing focus of the company on an export lead growth has resulted in insulating the company against margin pressures.
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, IPL holds more than 100 registered products including both in technical grade as well as formulations.
Further, since IPL is into manufacturing of technical grade, the same requires compliance with stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms would have an adverse impact on the company's operations. However, as per management, IPL has equipped its units with in-house systems for treatment of solid, liquid and gaseous effluents and is in compliance with the regulatory guidelines.

Liquidity: Strong
The liquidity position of the company is strong supported by free cash and bank balance of Rs.133.75 crore as on Sep 30, 2021 including IPO proceeds of Rs. 80.00 crore. The company has sanctioned working capital limits of Rs. 70.00 crore and the average monthly fund-based working capital utilization for the last 12 months ending on October 2021 stood about 40%. The company does not have any long term debt obligations except small vehicle loans. The company also plans for capex of Rs.70 crore in FY22 which will be funded through internal accruals of the company.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology - Manufacturing Companies
Rating Methodology for Pesticide Companies

About the Company
India Pesticides Limited (IPL) was established in 1984 which became public limited company in 1993 and got listed on stock exchanges in July 2021. IPL is engaged in the manufacturing of various types of pesticides (technical & formulations) and pharmaceutical intermediates. Pesticides contribute about 93% of total sales, while pharmaceutical intermediates contribute about 7% to total sales of the company in FY21. While the company markets a bouquet of formulations in the Indian market under various brands, IPL's thrust is on the manufacturing of technical (primarily fungicide based technical). The products of IPL are well established in Indian & International markets. The company has won many awards including top exporter award from CHEMEXIL in the past. The company is a recognized export house. The R&D facilities of the company are registered with Department of Scientific & Industrial Research (DSIR). As of September 30, 2021, the aggregate installed capacity of company's manufacturing facilities for agro-chemical Technical was 20,500 MT and Formulations was 6,500 MT.

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

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	489.61	655.16	356.41
PBILDT	103.55	189.32	117.76
PAT	70.78	134.54	84.17
Overall gearing (times)	0.16	0.11	-
Interest coverage (times)	19.85	55.15	76.97

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE:

Name of Director	Designation of Director
Adesh Kumar Gupta	Non-Executive - Independent Director

Mr. Adesh Kumar Gupta who is Director on the Board of India Pesticides Ltd. is also the Independent Director of CARE. Independent/Non-executive Directors of CARE are not a part of CARE's Rating Committee and do not participate in the rating process.

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

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

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	70.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	35.00	CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	70.00	CARE A+; Stable / CARE A1+	-	1)CARE A; Stable / CARE A1 (16-Mar-21)	1)CARE A-; Positive / CARE A2+ (02-Mar-20)	1)CARE A-; Stable / CARE A2+ (24-Dec-18)
2	Non-fund-based - ST-BG/LC	ST	35.00	CARE A1+	-	1)CARE A1 (16-Mar-21)	1)CARE A2+ (02-Mar-20)	1)CARE A2+ (24-Dec-18)
3	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (16-Mar-21)	1)CARE A-; Positive (02-Mar-20)	1)CARE A-; Stable (24-Dec-18)

** Long Term / Short Term*

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

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Working Capital Demand loan	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. 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.

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