

## Bharat Rasayan Limited

January 03, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	149.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	101.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>250.00</b> <b>(₹ Two hundred fifty crore only)</b>		
Commercial paper	50.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial paper (Carved out) *	50.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total short-term instruments</b>	<b>100.00</b> <b>(₹ One hundred crore only)</b>		

Details of instruments/facilities in Annexure-1.

\*Carved out of working capital limits of the company.

### Detailed rationale and key rating drivers

The reaffirmation to the bank facilities of Bharat Rasayan Limited (BRL) continues to derive strength from the long track record of the promoters in the pesticides industry and its integrated operations marked by its presence in the entire value chain of the pesticides. The ratings further factor in its wide marketing and distribution network with large number of product registrations and its reputed customer base across the globe. The ratings also factor in the comfortable financial risk profile of the company characterised by its growing scale of operations, strong capital structure and healthy debt coverage indicators. These rating strengths are, however, partially offset by its exposure to the foreign currency fluctuation risk, working capital intensive nature of its operations, highly regulated and competitive nature of the pesticides industry, and vulnerability of the operations to agro climatic conditions.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability of the company to enhance its scale of operations over ₹1,200 crore on a sustained basis without impacting its profitability and capital structure.
- Ability to improve its PBILDT margins and sustain the same at 20% or above from the current levels.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant increase in the working capital cycle on a sustained basis impacting the liquidity profile of BRL.
- Decline in the total operating income (TOI) by more than 20% or decline in the PBILDT margin by more than 500 bps on a sustained basis.
- Deterioration in its capital structure with overall gearing of more than 0.60x in the projected period.

**Outlook:** Stable

### Detailed description of the key rating drivers

#### Key rating strengths

**Long track record of management in the pesticides industry and resourceful promoters:** BRL being part of the Bharat group, benefits from the long track record of operations and experienced management of the group. BRL is one of the leading manufacturers of technical-grade pesticides in India and has been engaged in the operations of manufacturing and selling of pesticides with the promoter's experience spanning more than four decades. S.N. Gupta, Chairman and Managing Director (MD) of BRL, is a postgraduate in economics and has vast experience in the fields of international business, overall marketing strategy and corporate planning besides the pesticides industry. M.P. Gupta, whole-time director of BRL and BRAL, is a graduate in commerce and has more than 38 years of experience. He looks after banking, finance, taxation, accounts and

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

administration. Furthermore, R.P. Gupta, whole-time director of BRL and BRAL, has over 30 years of experience in the agrochemical industry. He looks after the research and development (R&D), production and project execution activities. The directors of the group are supported by a team of professionals with rich experience in varied spheres of business. The promoters of the company have a demonstrated track record in supporting the working capital requirements of the company as and when required.

**Integrated operations offering diversified product mix:** BRL is majorly in the manufacturing of technical grade pesticides, and the sales of technical grades of the company is also made to BR Agrotech Limited (BRAL), which uses it as a raw material for the manufacturing of formulations. BRL also manufactures intermediates, which is the raw material for manufacturing technical grades. BRL and BRAL derive cost advantage from the integrated operations through lower dependence on the import of technical grades, which is the key input for manufacturing of formulations. BRL has established a strong presence in domestic as well as international markets. The group has synergetic operations through integrated and interlinked business processes of the group companies. BRL has made its presence in the value chain, right from production of technical grade pesticides to the varied formulations through direct and reverse integration. In FY22 (refers to the period April 1 to March 31), technical pesticides accounted for 78.12% (PY: 68.29%), intermediates accounted for 18.98% (PY: 24.13%) and formulation grades accounted for 2.09% (PY: 6.81%) of gross sales of BRL. BRL product portfolio comprises wide range of pesticides, including insecticides, fungicides, herbicides, weedicides, intermediates and plant growth regulators to cater to all the pest problems of major crops grown in India, including paddy, cotton, soybean, sugarcane, wheat, groundnut, maize, cumin, all vegetables and horticulture crops, including their formulations and intermediates. BRL's product mix comprises 378 varieties of pesticides under technical grade, formulations and intermediates. Furthermore, BRL has around 115 international registrations, and has been exporting its products (technical grade, intermediates and formulations) to more than 60 countries across the globe. It is a preferred supplier for several MNCs for their global demand of several molecules. BRL also has two Government-approved R&D centres based in Bahadurgarh, Haryana, and Dahej, Gujarat. Furthermore, the group has a strong R&D team registered with the Ministry of Science & Technology, Government of India.

**Diverse geographic presence and reputed client base with long-standing relations:** BRL has a market leadership in many technical products, including Lambda Cyhalothrin Technical, Metaphenoxy Benzaldehyde, Metribuzine Technical, Thiamethoxam (Insecticides) and Fipronil (Insecticides) among others, for which BRL is a preferred supplier in the international markets. The contribution from Lambda Cyhalothrin Technical, Metaphenoxy, Metribuzine Technical is 35% to 40% of its TOI. Furthermore, the company is supplying its products in both local as well as overseas market. BRL has around 115 international registrations and has been exporting its products to more than 60 countries across the globe. The domestic sales account for around 48.71% of the total sales of BRL in FY22 (63.23% in FY21) and 51.07% in H1FY23 (H1FY22: 60.40%). Furthermore, BRL has a large institutional customer base in the domestic market as well as in the international market with long-standing relationship and low client concentration risk. In the international market, the group has strong presence in East Asia, South America, Europe and Middle East. Furthermore, few large customers like Syngenta and Sumitomo contribute to both the domestic and export pie of BRL. There is a product concentration risk, as the top 10 products of BRL account for around 79.04% of the total sales of BRL in FY22 (PY: 54%) and around 80% of the total sales of BRL in H1FY23 (H1FY22: 62%). However, BRL's long-standing customer relationship with all the large institutional buyers for these products mitigates this risk for BRL to some extent. Furthermore, the major suppliers for the imported raw materials are located in China, Hong Kong, Singapore, and Belgium.

**Comfortable financial risk profile and strong capital structure:** The TOI of the company had been consistently increasing from ₹797.92 crore in FY18 to ₹1,314.85 crore in FY22 with a compounded annual growth rate (CAGR) of 13.34%. However, FY21 was affected due to the COVID-19 pandemic, which affected the export sales of the company in Q1FY21 that form a large part of the company's top line. The company recorded a TOI of ₹1,314.85 crore, which is an increase in the TOI by 19.83% as compared with FY21. During H1FY23 (refers to the period from April 01 to September 30), the company achieved a TOI of ₹631.61 crore (₹526.77 crore in H1FY22). However, PBILDT and profit after tax (PAT) in H1FY23 has declined to ₹101.25 crore (H1FY22: ₹104 crore) and ₹61.65 crore (H1FY22: ₹67 crore), respectively. The same has been on account of increase in the input cost and fire incident, which took place in Q1FY23. The capital structure of the company is strong marked by zero long-term debt as on March 31, 2022. The total debt of the company stood at ₹174 crore (CC- ₹173 crore and loan from promoter- ₹1 crore) as on March 31, 2022. The other debt coverage indicators were also healthy in FY22. The total debt to gross cash accruals (GCA) and interest coverage ratio stood at 0.86x (PY: 0.31x) and 41.28x (PY: 63.45x), respectively, for FY22. The company has been generating healthy cash accruals and has comfortable liquidity. The company has free cash & bank balance amounting to ₹0.33 crore as on March 31, 2022 (PY: ₹26.63 crore) and around ₹7.13 crore (PY: 6.93) as on September 30, 2022, against which there are no long-term debt repayments. The total debt of the company continues to remain low at ₹114 crore as on September 30, 2022. Due to the fire breakout in Q1FY23 at one of the blocks in Dahej of BRL, there will be some loss of production and profitability due to the same, but it will not materially impact the credit profile of BRL. The operations in the respective block are likely to be restored in June 2023, and the company is in the process of filing the final insurance claim for the loss so suffered.

**Key rating weaknesses**

**Working capital intensive nature of operations:** The pesticide industry requires high working capital investment due to high inventory and long credit period on sales. The commoditised nature of the products and seasonality factor (high demand during crop-sowing seasons) makes the operations of the company highly working capital intensive. Around 60% sales for the whole year is done on the first half of the year for BRL, and most of the sales are done on a credit of around 90 days-120 days to its customers, resulting in high debtors in the first half of the year. This results in high working capital requirement by BRL in first half of the year as compared with the second half of the year. Furthermore, due to the seasonal demand for pesticides, BRL 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 the pesticide industry. This increases the inventory holding cost. Furthermore, 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. Also, the company makes early payments to its suppliers on account of early payment discount from domestic suppliers and purchases on cash basis from foreign suppliers, resulting in average creditor period of around 18 days. Thus, due to such intrinsic nature of business, the group's working capital requirement continues to remain high. During FY22, the operating cycle of the group stood at 161 days in FY21 (PY: 140 days).

**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. The sales and profitability of the pesticides industry depends largely on the prevalent agro-climatic conditions. However, BRL has its presence spread across all states as well as in multiple markets (domestic and international), which reduces the group's dependence on climatic conditions of a particular region.

**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 the prohibited usage of certain molecules. However, BRL holds 378 registered products including both in technical grade as well as formulations. Furthermore, since BRL 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, with a commitment to promote health, safety and protect environment, BRL has equipped its units with in-house systems for treatment of solid, liquid and gaseous effluents. All these factors have facilitated the company to obtain certifications of ISO 14001:2004 for Environment Management System and OHS 18001:2007 for Occupational Health and Safety.

**Exposure to foreign currency fluctuation risk:** BRL is exposed to the foreign currency fluctuation risk as the total export sales constitute 51.29% of the total sales of the company in FY22 (PY: around 36.77%). BRL is also importing raw materials for manufacturing of technical grade pesticides. The mix of domestic and imported raw material is 45:55 and 70% of the imported raw material is from China (the mix has reduced from 80% from China in FY18 to 70% in FY20 and FY21). However, the company purchases raw material from foreign markets on cash basis for around 80% of its purchases from foreign market. Furthermore, foreign exchange fluctuation risk is reduced partially on account of the natural hedge available in the form of export sales by the company. The company has booked a forex gain of ₹12.81 crore in FY22 (PY: gain of ₹3.14 crore) on account of favourable exchange rate fluctuation.

**Liquidity: Strong**

The liquidity of BRL is strong. The company is generating healthy cash accruals with no long-term debt outstanding. BRL operates in a highly working capital-intensive industry marked by high inventory holding days and elongated collection period. During the 12-month period ending September 2022, average working capital utilisation stood comfortable at 9.00%, while the average of maximum utilisation stood at 27.40%. The company has been generating healthy cash accruals and has comfortable liquidity. The company has free cash balance and liquid investments of around ₹7.13 crore as on September 30, 2022. This apart, the company has unutilised working capital limits of ₹80-90 crore.

**Analytical approach: Standalone**

## Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Pesticide](#)

[Policy on Withdrawal of Ratings](#)

## About the company

Bharat Rasayan Ltd. (BRL) was incorporated in May 1989 by the current Chairman and Managing Director, S. N Gupta, for the manufacturing of technical grade pesticides as a part of backward integration. BRL is the flagship company of the Bharat group, which also comprises BR Agrotech Ltd (BRAL). BRL and BRAL has synergetic operations through integrated and interlinked business processes with both the companies being managed by the same management. BRL is engaged in the core business activities of manufacturing of technical grade pesticides (a B2B segment), which is a key ingredient for formulations and is used for captive consumption to some extent, whereas BRAL is engaged in valued-added product of formulations and packaging (Pet Bottles). BRL started its operations by setting up a manufacturing plant with installed capacity of 5,000 MTPA at Mokhra, Haryana, in 1989 and later increased its production capacity in the year 2012 by setting up a plant of installed capacity of 12,000 MTPA at Dahej, Gujarat and with the current expansion installed capacity has been increased to 29,200 MTPA. BRL is one of the leading manufacturers of technical grade pesticides in India and is a government-recognised Star Export house.

BRL has executed a joint venture (JV) Agreement on February 18, 2020, with Nissan Chemical Corporation, a company incorporated in Japan. The JV will operate through a company named 'Nissan Bharat Rasayan Private Limited', a company incorporated in India in which BRL has 30% share and NCC has 70% share. The total investment as per equity in this JV was ₹150 crore, which had to be done by both the sponsors in their shareholding proportion, and accordingly, BRL has provided all the equity of ₹45 crore out of its internal accruals in NBRPL. Nissan Chemical Corporation is a research-based company and is one of the largest manufacturers of agrochemicals in Japan having global operations. The main rationale of NCC's investment is that they wanted to diversify and secure sources of active ingredients and decrease material shortages risk.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,096.46	1,314.85	631.61
PBILDT	244.67	269.10	101.25
PAT	164.47	177.13	61.65
Overall gearing (times)	0.08	0.23	0.14
Interest coverage (times)	62.81	40.99	32.56

A: Audited; UA: Unaudited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Carved out)		NA	NA	NA	50.00	CARE A1+
Commercial paper-Commercial paper (Standalone)		NA	NA	NA	50.00	CARE A1+
Fund-based - LT-Cash credit		-	-	-	149.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	101.00	CARE A1+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	149.00	CARE AA-; Stable	1)CARE AA-; Stable (25-May-22)	1)CARE AA-; Stable (23-Dec-21) 2)CARE AA-; Stable (20-Dec-21)	1)CARE AA-; Stable (30-Dec-20)	1)CARE AA-; Stable (27-Dec-19)
2	Non-fund-based - ST-BG/LC	ST	101.00	CARE A1+	1)CARE A1+ (25-May-22)	1)CARE A1+ (23-Dec-21) 2)CARE A1+ (20-Dec-21)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (27-Dec-19)
3	Commercial paper-Commercial paper (Standalone)	ST	-	-	-	-	1)Withdrawn (22-Dec-20)	1)CARE A1+ (27-Dec-19)
4	Commercial paper-Commercial paper (Carved out)	ST	50.00	CARE A1+	1)CARE A1+ (25-May-22)	1)CARE A1+ (23-Dec-21) 2)CARE A1+ (20-Dec-21)	1)CARE A1+ (22-Dec-20)	1)CARE A1+ (27-Dec-19)
5	Commercial paper-Commercial paper (Standalone)	ST	50.00	CARE A1+	1)CARE A1+ (25-May-22)	1)CARE A1+ (23-Dec-21)	-	-

\*Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Commercial paper-Commercial paper (Standalone)	Simple
3	Fund-based - LT-Cash credit	Simple
4	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 instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

### Media contact

Name: Mradul Mishra  
Phone: +91-22-6754 3596  
E-mail: mradul.mishra@careedge.in

### Analyst contact

Name: Ravleen Sethi  
Phone: 9818032229  
E-mail: ravleen.sethi@careedge.in

### Relationship contact

Name: Swati Agrawal  
Phone: +91-11-4533 3200  
E-mail: swati.agrawal@careedge.in

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