Punjab Chemicals and Crop Protection Limited

April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	61.15 (Enhanced from 15.00)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	20.00	**CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)**	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)
Short Term Bank Facilities	5.00	**CARE A3+ (A Three Plus)**	Revised from CARE A3 (A Three)
Total Facilities	**86.15 (Rs. Eighty-Six Crore and Fifteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term and short-term ratings assigned to the bank facilities of Punjab Chemicals & Crop Protection Limited (PCCPL) take into account the improvement in the financial risk profile of the company during 9MFY21 (Un-audited: refers to a period from April 1 to December 31), marked by growth in the total operating income (TOI), improved profitability, cash accruals and debt coverage indicators. Furthermore, the liquidity position of the company is adequate with lower utilization of bank lines. The company has repaid higher interest bearing inter-corporate deposits (ICDs) during 9MFY21, thereby improving the capital structure. CARE also takes note of the debt availed by the company during January 2021 for capex and working capital. Despite the same, the capital structure is expected to remain comfortable with accretion of profits to reserves.

Further, the agrochemicals industry has been fairly buoyant led by normal monsoons and remunerative prices, all of which has resulted in an acceleration in agricultural activities.

The ratings further continue to derive strength from its long track record of operations along with the extensive experience of the promoters in manufacturing of crop protection products, its accredited partly integrated manufacturing facilities and the company's long-standing relationship with key multinational clients with a long-term contract manufacturing agreement in place for a few products.

The aforementioned rating strengths continue to be offset by the moderate scale of operations, customer and product concentration risk, presence of the company in a highly regulated industry requiring various licenses and environmental clearances for operations along with the susceptibility of profitability to raw material price volatility and foreign exchange fluctuation risk and seasonality associated with the agrochemical sector.

Furthermore, the ratings take note of the envisaged decline in TOI and moderation in profitability during FY20 (Audited: refers to a period from April 1 to March 31) on account of the fire in one section of the Agro Chemicals Division at Derabassi resulting in disrupted production for the whole factory for a few days during Q1FY20, and reduction of export incentives from the ministry under the Merchandise Exports from India Scheme during Q3FY20.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade.

- Sustained improvement in the TOI above Rs.750 crore and PBILDT margins above 18% - 19%
- Sustained improvement in the debt coverage indicators with PBILDT interest coverage above 8x and total debt to gross cash accruals lower than 2x
- Diversification in its revenue stream from new customers and products thereby reducing customer and product concentration

Negative Factors- Factors that could lead to negative rating action/downgrade

- Any un- envisaged debt funded capital expenditure leading to sustained deterioration in the capital structure beyond 1.2x
- Sustained deterioration in the profitability with PBILDT margin below 10%
- Sustained deteriorating in total debt to gross cash accruals beyond 4x

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

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of the company coupled with extensive experience of the promoters

The company has a track record of more than four decades in manufacturing of crop protection products and was initially incorporated as Punjab United Pesticides & Chemicals Limited (PUPCL) in November 1975 as a Joint Venture between PSIDC and Excel Industries Limited (EIL). In August 2004, the name was changed to Punjab Chemicals and Crop Protection Limited (PCCPL) with all its divisions Agro chemicals, Pharmaceuticals, Intermediates, Chemicals & International Trading, under its umbrella. The company is currently managed by the second generation of the promoters and is spearheaded by Mr Shalil Shroff in the capacity of Managing Director. Mr Shroff has a Management Diploma (U.S.A.) and has over 3 decades of experience in the Industry. The Chairman of the company Mr. Mukesh Patel is a graduate in Chemical Engineering, having an experience in finance and corporate management for more than 4 decades. The promoter is further supported by a qualified and experienced management team. Being in the business for long has enabled the promoters in gaining adequate acumen about the business which aids in smooth operations of the company. During January 2021, the company has appointed a Chief Executive Officer (CEO) Mr. Vinod Kumar Gupta. Mr. Gupta, 50 years, is Bachelor of Technology in Chemical Engineering from Indian Institute of Technology, Bombay and has also done Post Graduate Program in Management for Executives from the Indian Institute of Management, Ahmedabad. He has a vast experience of 29 years with more than 23 years in Operations Management in large Petrochemicals and Oleochemicals sector.

Accredited and partly integrated operations

The company has three accredited manufacturing units in Derabassi, Punjab, Lalru, Punjab and Pune, Maharashtra with a total installed capacity of 23502 MTPA spread across 49.21 acres of land and having approximately 300 reactors. Further, the operations are partly integrated with base materials like Oxalic Acid, Diethyl Oxalate, Ethyl Oxalyl Chloride and Phenyal Oxalalyl Gly Oxalate being manufactured in house. Approximately 60% of the production of these chemicals is used for captive purposes which enables the company to churn better profitability, despite major revenue being driven from contract manufacturing.

Improvement in the financial risk profile of the company during 9MFY21

During 9MFY21 the performance of the company has seen an improvement in the financial risk profile with the company reporting a growth in TOI, PBILDT, PAT, and cash accruals.

The company reported a TOI of Rs.470.36 crore (P.Y: Rs.446.39 crore), PBILDT of Rs. 73.91 crore (P.Y: Rs.36.92 crore), PAT of Rs. 38.59 crore (P.Y: Rs. 6.08 crore) and gross cash accruals of Rs. 49.31 (P.Y: Rs.16.98 crore) during 9MFY21.

The PBILDT margin stood healthy at 15.71% during the period (as compared to 8.27% during 9MFY20) and PAT margin of 8.20% (as compared to 1.13%).

The ability of the company to increase contribution from higher margin products/customers thereby favorably affecting the blended profitability will be the key rating monitorable.

Comfortable capital structure and debt coverage indicators during FY20 and 9MFY21

The overall gearing ratio stood comfortable at 1.05x as on March 31, 2020 (as against 1.05x as on March 31, 2019). However, with moderation in profitability during the period, the debt coverage indicators slightly deteriorated as indicated by a PBILDT interest coverage of 2.76x in FY20 and 4.28x in FY19 and TDGCA at 4.02x as at the end of FY20 as compared to 2.20x as at the end of FY19.

During 9MFY21, the company has repaid approximately Rs.29 crore of its ICDs from cash generated to improve the capital structure further to 0.47x as on December 31, 2020. Further, with improved profitability, the PBILDT interest coverage ratio stood at 6.48x as at the end of 9MFY21 (as compared to 2.82x as at the end of 9MFY20).

The company has availed a term loan to the tune of Rs.50 crore during January 2021 (Q4FY21), the same is expected to slightly moderate the gearing levels. However, despite the same, the capital structure is expected to remain comfortable with healthy accretion of profits to reserves.

Any un- envisaged debt funded capital expenditure or debt funded repayments of ICDs deteriorating the capital structure beyond 1.2x will remain a key rating monitorable.

Key Rating Weaknesses

Customer concentration and product concentration risk

The company over the last decade has moved to contract manufacturing as compared than selling under its own brands and has supply arrangements with few multinational companies like UPL Limited (rated CARE AA+; Negative/A1+ dated September 24, 2020), Kureha, Adama, Corteva and Nippon Kayaku for contract manufacturing of a few products. The top 5 customers contributed to approximately 65% of TOI during FY20 (P.Y: 74%). This high dependence on these customers exposes PCCPL to any adverse change or lower demand from these customers or changes in the terms. Furthermore, the company is also exposed to product concentration with approximately 40% of the revenue generated from Metamitron and Metconazole during FY20 (as compared to ~45% in FY19).

The ability of the company to diversify its revenue base will be the key rating monitorable

Decline in TOI and profitability during FY20 (A)

The TOI of the company has registered y-o-y decline of approximately 14% to Rs.554.71 crore in FY20 on account of lower orders during the year. The same was mainly due to the prevailing market conditions due to the seasonality. Furthermore, during June 2019 there was a fire in one section of Agro Chemicals Division, Derabassi due to which the property; plant, equipment, capital work-in-progress and inventory was damaged. During the quarter ended September 30, 2019, the company had recorded a loss of Rs.9.08 crore due to the incidence (Rs.2.98 crore in plant and equipment, Rs.5.13 crore in Capital WIP and Rs.0.97 crore in inventory), from the same. Furthermore, the capacity utilization declined during FY20 to 74% as compared to 87% in FY19. With decline in capacity utilization levels and lower fixed cost absorption the company reported 236 bps deterioration in the PBILDT margin, which stood at 9.02% in FY20 as compared with 11.38% in FY19 and 10.81% in FY18. Further, the PAT margin declined to 1.94% in FY20, as against 2.59% in FY19. The same was mainly due to the higher debt profile during the year, with the company availing term loans and working capital borrowings.

However, the operating performance of the company has been improving since Q4FY20 (refers to a period from January 1 to March 31). Further, the company has completed the construction of new building following the damage due to fire and the commercial operation has started post the trial runs in February 2021. The construction of the building and setting up of the plant was delayed due to COVID-19.

During FY20, the company had executed an agreement with UPL Limited to transfer the Leasehold rights in respect of the Industrial Plots together with the Factory building situated at Tarapur, Boisar, Maharashtra. For the same the company has booked a gain on sale to the tune of Rs.7.85 crore in FY20. The total value of the deal was approximately Rs.23 crore.

Any further damages/fire outbreaks causing disruption in operations and losses to the company will be the key rating monitorable.

Susceptibility to raw material price volatility

The major raw materials required include various chemicals like Hydrazine Hydrate (produced from nitrogen and hydrogen gases), Aluminium Chloride Anhydrous, 2-Chloro Nicotinic Acid, Ethyl Acetate, Benzene, Denatured Spirit, amongst others. The prices of major raw materials are largely depend on the production and are primarily linked to the international prices. The same can dynamically vary based on the global market demand–supply situation and thus the company's margins remain exposed to fluctuation in prices of the raw material.

Exposure to Regulatory and Environmental clearances

Various licenses and environmental clearances are mandatory for the setting up of a manufacturing facility and selling products is required in the industry. The chemical reaction produces effluents which are harmful for the living habitat which necessitates setting up large sector effluent treatment plants alongside the facility. The Government of India regulates the manufacture, sale, transport, export/import etc. of pesticides under the guidelines of the Insecticides Act, 1968, administered through the Ministry of Agriculture, Department of Agriculture and Cooperation (DAC). The other vital issues of industry such as prevention of use of spurious pesticides, quality standards, testing, review of use of pesticides, to create awareness about judicious use of pesticides among the farmer community are also looked after by the DAC. Central Insecticides Board and the Registration Committee are the agencies under the Department to regulate the manufacture, distribution, export, import, ban and usage of pesticides.

Foreign exchange fluctuation risk

The company imports around 25% - 30% of raw material and exports ~60% - 65%, thereby creating a natural hedge only to an extent. The major export destinations in FY20 were The Netherlands, Belgium, United Kingdom, Israel and Italy. The exports are primarily in USD and Euro which are major convertible currencies, and to that extent the exposure to foreign exchange risk exists, in the absence of any hedging being undertaken.

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. With the government propagating the development of the agricultural sector and with the proposals under the 'Aatmanirbhar Bharat' package pertinent towards the upliftment of the agrarian economy focused on boosting the agriculture and its allied sector (by strengthening its infrastructure and logistics), the demand for agrochemicals for the rest of FY21 seems sanguine.

Going forward, with acreage and crop prices both improving, the sector is structurally well-placed also considering the fact that that this year's 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. Exports of agrochemicals are to remain steady as agronomic conditions in most markets in both the Northern and Southern hemispheres have improved compared with the same period last year.

The pandemic has had limited impact on crop planting patterns and crops like wheat, rice and soya bean have shown strength.

The government is slated to bring a production-linked incentive (PLI) scheme for the promotion of domestic manufacturing of agrochemicals. 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 its wants to shift its reliance from China and become self-sufficient in the coming years.

Liquidity: Adequate

The liquidity profile of PCCPL is characterized by a moderate cushion in accruals vis-à-vis repayment obligations. Gross cash accrual (GCA) during the FY21 – FY23 is expected to be in the range of Rs.60 crore - Rs.75 crore as against the external repayment obligations of Rs.10 crore – Rs.12 crore. The working capital cycle for company remained comfortable at 26 days in FY20. During FY20 the company had availed some working capital limits in the form of Pre-shipment/Post shipment packin credit/Bills discounting/Letter of credit/Cash credit to the tune of Rs.20 crore. The utilization of the same remains low at approximately 25% during the past 12 months ended January 2021.

PCCPL had sought moratorium for its term loan facility from its lenders as part of the Covid-19 Regulatory Package announced by RBI. Accordingly, for such loans, scheduled quarterly payments that were already made in March 2020 were refunded post the approval from lender. It is expected that the company would be meeting its revised debt repayments, after considering moratorium through internal accruals.

Analytical Approach – Consolidated

CARE has considered a consolidated approach and has considered the business and financial risk profiles of SD AgChem (Europe) NV (SDAC), Belgium, wholly owned overseas subsidiary company of PCCPL. SDAC, is the marketing arm of the group in Europe with various Registrations for immediate supply of Company's products in the region.

Applicable Criteria

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

Company Background

PCCPL *(listed on NSE & BSE, with market capitalization of Rs. 1,073 crore at market price of Rs.875.25 per share; closing price as on March 31, 2021)*. The company operates under four distinct divisions namely Agro chemicals, Pharmaceuticals, Intermediates, Chemicals & International Trading.

Agro and Base chemicals division (Derabassi, Punjab): The Agro chemicals division is a major focus area of PCCPL. The company is present in entire value chain including intermediates, technicals, bulk formulations and branded formulations. Major products include Oxalic Acid and Diethyl Oxalate. Agrochemicals include Herbicides, Insecticides and Fungicides.

Specialty and Other Chemicals (Lalru): Manufacturing of API's and Intermediates. The division also produces a range of derivatives from Gallic Acid.

Industrial chemicals (Pune): The industrial chemical division makes Phosphoric acid by thermal process with the certification of FSSC: 22000 and supplying Food Grade Phosphoric.

International Trading (Mumbai): The division sources and imports chemicals from the overseas market to cater to the requirements of domestic customers. Major products range from pharmaceuticals to agrochemicals, dyestuff to resins, paints, cosmetics & others

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)	9MFY21 (UA)
Total operating income	648.89	554.71	470.36
PBILDT	73.87	50.01	73.91
PAT	16.80	10.75	38.59
Overall gearing (times)	1.05	1.05	0.47
Interest coverage (times)	4.28	2.76	6.48

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Nil

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-Term Loan	-	-	June 2022	61.15	CARE BBB; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	20.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Loan Equivalent Risk	-	-	-	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-Term Loan	LT	61.15	CARE BBB; Stable	1)CARE BBB-; Stable (22-Jun-20) 2)CARE BBB-; Stable (03-Jun-20)	-	-	-
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	20.00	CARE BBB; Stable / CARE A3+	1)CARE BBB-; Stable / CARE A3 (22-Jun-20) 2)CARE BBB-; Stable / CARE A3 (03-Jun-20)	-	-	-
3.	Non-fund-based - ST-Loan Equivalent Risk	ST	5.00	CARE A3+	1)CARE A3 (22-Jun-20) 2)CARE A3 (03-Jun-20)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Margins on Fund based limits	PCFC/PSFC – 10% on FOB value/order value Cash credit - Margin of 25% on all inventory and book debts Sales Invoice Discounting – 15% of Invoice value
ii. Margins on Non-Fund based limits	10% cash margin
iii. Total Debt/EBITDA	Half yearly <=0.60x
iv. TOL/TNW	Half yearly <=2.20x
v. Consolidated Debt/TNW	Should not be more than 1x
B. Non-financial covenants	
I Submission of Annual and Quarterly financial Statements	Two copies of audited balance sheet to be submitted not later than 180 days from the close of a financial year
ii Submission of stock and debtor statement	Monthly stock statements and book debt to be submitted within 20 days of month end. Quarterly financial statements to be submitted within 45 days from the date end of the quarter Annual financial statements - Provisional results within 90 days of financial year end - Audited results within 180 days of financial year end

Annexure - 4: List of Subsidiaries consolidated

Sr. No.	Subsidiary	% shareholding
	Direct Subsidiaries	
1.	SD AgChem (Europe) NV	100%

Annexure 5: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
3.	Non-fund-based - ST-Loan Equivalent Risk	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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