NACL Industries Limited

July 06, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	288.56	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short Term Bank Facilities	85.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	373.56 (Rs. Three Hundred Seventy-Three Crore and Fifty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of NACL Industries Limited (NACL) take into account considerable improvement in the total operating income and profitability margins during FY21 (refers to the period April 01 to March 31) driven by increase in sales volume of technicals and formulations, improvement in liquidity profile due to healthy cash accruals and efficient working capital management resulting in reduced reliance on working capital borrowings along with maintaining healthy cash and liquid funds. The ratings continue to derive strength from established track record of the company along with experienced and resourceful promoters, wide product portfolio with strong supply chain and diverse geographical presence, reputed client base marked by moderate client concentration risk, alliances with Krishi Rasayan Exports Private Limited, improvement in financial risk profile and working capital cycle. The ratings are, however, constrained by high dependency on vagaries of monsoon and climatic conditions, exposure to foreign exchange fluctuation risk and volatility in raw material prices and project implementation risk associated with the debt funded greenfield project in one of its subsidiaries with substantial equity commitment from NACL.

Key Rating Sensitivities

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

- Increase in scale of operations marked by total operating income increasing by more than 20% while maintaining PBILDT margin at 14% and above on a sustained basis
- Completion of the Dahej project and stabilization of operations
- Improvement in Total Debt/Gross Cash Accruals (TD/GCA) to less than 2x

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

- Elongation of operating cycle beyond 150 days in future years
- Deterioration in TD/GCA beyond 7x in future years
- Significant cost and time overrun in completing the capex

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in total operating income and profitability margins

NACL registered a healthy growth of 18% in total operating income (TOI) in FY21 vis-à-vis FY20. TOI improved from Rs. 1021.90 crore in FY20 to Rs. 1203.60 crore in FY21. The healthy growth is attributable to increase in both domestic sales and exports sales. The exports grew by 28% in FY21 and domestic sales witnessed a growth of 12% over that of last year, despite limitations posed due to the COVID situation which prevailed throughout the year. The PBILDT margin improved to 9.98% in FY21 from 6.87% during FY20. The capacity expansion of the technical division facilitated increase in production with lower cost of production. In line with PBILDT margin along with decrease in interest cost, the PAT margin has also improved by 260 bps from 1.64% during FY20 to 4.24% during FY21.

Improvement in capital structure and debt coverage indicators

The company has a comfortable financial risk profile with comfortable capital structure and debt coverage indicators. NACL has a comfortable capital structure with a gearing of 0.56x as on March 31, 2021 vis-à-vis 0.82x as on March 21, 2020. The company has raised funds to the tune of Rs. 19.50 crore by way of issuing Convertible Warrants to Mrs. K. Lakshmi Raju, promoter of the company. Its coverage indicators have improved with interest coverage and total debt/GCA of 4.30x and 3.11x in FY21 vis-à-vis 2.41x and 6.53x in FY20 due to healthy profitability and reduced debt levels.

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

Established track record and experienced management in pesticide industry
NACL has been engaged in the operation of manufacturing and selling of pesticides for more than two decades. NACL was founded by Mr. K.V.K Raju and the currently, Mrs. K. Lakshmi Raju is the promoter and chairperson of the company. The operations are being managed by Mr. M. Pavan Kumar, MD & CEO. He has over 35 years of operational and executive management experience in diverse fields such as chemicals, consumer goods, agriculture, etc. across various functions such as marketing, operations, supply chain and project management. The MD is supported by a team of well-qualified and experienced professionals.

Wide product portfolio with strong supply chain and diverse geographical presence
NACL has over 50 plus products in its portfolio covering a wide range of pesticides such as insecticides, fungicides and herbicides that cater to all pest issues of major crops grown in India i.e paddy, cotton, chilli, vegetables, pulses, fruits and oil seed. In the domestic market, the company supplies technicals and formulations through its well-established supply chain comprising of a vast network of dealers and agents spread across the country. This apart, the company achieved around 72% of its revenue from domestic sales during FY21 and remaining 28% revenue from exports. NACL derives majority of its export sales from USA, Netherlands and Brazil.

Reputed client base marked by moderate client concentration risk
NACL by virtue of its long presence in the industry and industry linkages has established a reputed client base both in the domestic and export markets from whom it has been receiving repeat orders in the past. NACL's clientele is fairly diversified with top 10 clients contributing around 42% of the total sales in FY21 (40% of total sales in FY20).

Improvement in operating cycle
NACL operates in an industry which is characterized by high inventory periods and elongated receivable period on account of the seasonality in sales. Further, the nature of the industry is such that it necessitates the company to stock up the inventory during Q4 of the financial year in order to meet the upcoming demand as the monsoon generally strikes during Q1 and continues till Q2 of the financial year. Despite the industry phenomenon, the operating cycle of the company improved to 87 days in FY21 against 103 days in FY19. The inventory and collection days have improved from 80 days and 114 days in FY20 to 70 days and 107 days in FY21. The industry has to extend long credit period due to intense competition among the players and low off-take. The credit period offered to the customers is around 90-120 days. Furthermore, the average fund based working capital utilisation was about 49% for the last 12 months ended May 2021.

Alliances with Krishi Rasayan Exports Pvt Ltd
The company had entered into alliances with Krishi Rasayan Exports Pvt Ltd and Agro Life Science Corporation operating in a similar line of business with strong foothold in sourcing of raw materials; for a total equity commitment of Rs. 100 crore, of which Rs. 51.25 crore was received during Q4FY19 through preferential share allotment. The balance Rs. 48.75 crore was received during Q4FY20. The same was utilized by the company to launch new products, part of it was utilized for capex requirements for block-7 at Srikakulam and the remaining to support the company's long-term working capital requirements.

Stable industry outlook
The agrochemicals market in India is expected to register 8% CAGR to reach US$ 3.7 billion by FY22 and US$ 4.7 billion by FY25. With the government propagating the development of the agricultural sector and with the recent proposals under the 'Aatmanirbhar Bharat' package pertinent for the upliftment of the agrarian economy focused on boosting agriculture and its allied, the demand for agrochemicals seems promising.

Key Rating Weaknesses
High dependency on vagaries of 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. Given that the demand is dependent on monsoon, the industry in India is characterised by seasonality. The sales is spread across all the four quarters, with sales being usually higher in Q2 and Q4 due to healthy off-take by farmers during the Kharif and Rabi season. The demand for pesticide from cotton crop (during the Kharif season) is highest in the domestic market during the second quarter whereas demand for pesticide from paddy crop (during the Rabi season) is highest from second half of third-quarter to the first half of fourth quarter.

Project implementation risk associated with the debt funded greenfield project
NACL has floated a wholly owned subsidiary in the name "NACL Spec-chem Limited" during Q1-FY21 for undertaking greenfield project at Gujarat with a capacity of 6,000 MT per annum for manufacturing of five technical and one intermediate for domestic, export and for captive consumption. The company is envisaging project cost of nearly Rs.218.40 crore with debt-equity mix of 3.2:1. NACL will be investing Rs.52.00 crore in the subsidiary NACL Spec-chem Limited by March 2022 for the ongoing capex and raise debt to the tune of Rs.100 crore in the subsidiary by FY22-23. The

balance Rs. 46.20 crore would be funded through finance/equipment lease and Rs. 20.20 crore would be short-term loan. Till June 25, 2021, NACL has invested Rs. 37 crore (Rs. 32 crore invested till March 31, 2021) and will be investing the balance Rs. 15 crore by end of FY22 in the subsidiary. Currently, the land acquisition & development has been completed and the ground work has started. The project is estimated to be completed by Q1FY23. The above debt funded capex program entails support in terms of equity infusion and also exposes NACL to project implementation risk. Further, any cost overrun in debt funded capex may lead to deterioration of company's financial risk profile and liquidity.

Exposure to foreign exchange fluctuation risk and volatility in raw material prices
The company is engaged in export and import transactions which subjects it to risk associated with volatility in the exchange rates. However, the company enters into forward cover depending upon the natural hedge and turnover time involved; the management takes a call based on prevailing market condition for entering into forward contract as and when required. The company had forex gain to the tune of Rs. 3.70 crore in FY21 against a forex gain of Rs. 2.30 crore in FY20.
This apart, raw material cost is the major cost element for the company which contributes around 70% of the total cost. The major raw materials consist of several chemical compounds predominantly DETC, TCAC, CCMP, Sodium Salt, etc. NACL imports around 20%- 30% of the raw material requirements. Majority of the imports are from China and the remaining are primarily imported from Japan and Israel.
Liquidity - Adequate
The liquidity profile of the company is adequate. NACL has been generating sufficient cash accruals vis-à-vis repayment obligations. The company has liquid investments in the form cash & bank balance to the tune of Rs. 73.05 crore as on March 31, 2021. The average utilization of working capital limit remained at 49% for the last 12 months ended May 31, 2021. The net cash flow from operations stood at Rs. 78.72 crore in FY21 which is more than adequate to meet its incremental working capital needs in the immediate future. NACL had availed the first moratorium (March 2020 to May 2020) provided as a part of RBI Covid-19 regulatory package and subsequently, it was fully repaid by June 2020. Additionally, NACL has availed a working capital term loan of Rs. 34.39 crore under Guaranteed Emergency Credit line (GECL) in March 2021 to meet the operational requirements. Considering the trend of GCA levels generated along with presence of unutilized credit lines and adequate liquid funds maintained in the form of cash and cash equivalents, the company is in a comfortable liquidity position to meet its debt obligations which is Rs. 15.24 crore for FY22.

Analytical approach: Consolidated; the consolidated business and financial risk profiles of NACL and its subsidiaries namely L R Research Laboratories Pvt Ltd, Nagarjuna Agrichem (Australia) Pty Ltd, NACL Spec- Chem Limited, NACL Multichem Private Limited and associate Nasense Labs Private Limited have been considered as these companies have cash flow fungibility amongst them and operate on a common management platform.

Applicable Criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Consolidation
Criteria on Short Term instruments
Rating methodology- Manufacturing companies
Rating Methodology: Notching by factoring linkages in ratings
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology- Pesticides

About the Company
NACL Industries Limited (NACL) is engaged in the manufacturing of pesticides (viz. Herbicides, Insecticides, Fungicides); both technical and formulations for more than two decades. NACL has two manufacturing units located in Andhra Pradesh and one R&D centre in Telangana. The company has presence both in domestic as well as exports market with major export destinations being Brazil, USA, Netherlands, etc. NACL accessed primary capital market during 1993 on BSE and NSE in 2017. NACL has presence in the entire value chain of agrochemicals and has 50+ branded products covering all the major crops across insecticides, herbicides, fungicides and plant growth regulators.

Brief Financials (Rs. crore) (Consolidated)	FY20 (A)	FY21 (A)
Total operating income	1021.90	1203.60
PBILDT	75.66	120.09
PAT	16.74	50.99
Overall gearing (times)	0.82	0.56
Interest coverage (times)	2.59	4.30

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Jan-25	29.56	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	85.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	175.00	CARE A; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	5.00	CARE A; Stable
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	79.00	CARE A; Stable

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-Term Loan	LT	29.56	CARE A; Stable	1)CARE A-; Positive (12-May-21)	1)CARE A-; Positive (10-Dec-20) 2)CARE A-; Stable (08-Oct-20)	1)CARE A-; Negative (05-Dec-19) 2)CARE A-; Negative (07-Jun-19)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (11-Dec-18)
2.	Non-fund-based - ST-BG/LC	ST	85.00	CARE A1	1)CARE A2+ (12-May-21)	1)CARE A2+ (10-Dec-20) 2)CARE A2 (08-Oct-20)	1)CARE A2 (05-Dec-19) 2)CARE A2 (07-Jun-19)	1)CARE A2 (07-Jan-19) 2)CARE A2 (11-Dec-18)
3.	Fund-based - LT-Cash Credit	LT	175.00	CARE A; Stable	1)CARE A-; Positive (12-May-21)	1)CARE A-; Positive (10-Dec-20) 2)CARE A-; Stable (08-Oct-20)	1)CARE A-; Negative (05-Dec-19) 2)CARE A-; Negative (07-Jun-19)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (11-Dec-18)
4.	Fund-based - LT-Working Capital Demand loan	LT	5.00	CARE A; Stable	1)CARE A-; Positive (12-May-21)	1)CARE A-; Positive (10-Dec-20) 2)CARE A-;	-	-

						Stable (08-Oct-20)		
5.	Fund-based - LT-Packing Credit in Foreign Currency	LT	79.00	CARE A; Stable	1)CARE A-; Positive (12-May-21)	1)CARE A-; Positive (10-Dec-20) 2)CARE A-; Stable (08-Oct-20)	-	-

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

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.	Fund-based - LT-Packing Credit in Foreign Currency	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT-Working Capital Demand loan	Simple
5.	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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