India Pesticides Limited (Revised)

October 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	80.00 (Enhanced from 70.00)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	80.00 (Enhanced from 35.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**160.00 (₹ One Hundred Sixty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of India Pesticides Limited (IPL) continue to derive strength from promoter's long-standing experience into the pesticides industry and strong competitive position of the company for some of its molecules in the national and international markets. The ratings also continue to take comfort from sustained growth in scale of operations and profitability, healthy financial risk profile marked by low debt levels and strong liquidity position. The ratings also take cognizance of ongoing capex plans of the company for launching the new products. The ratings, however, continue to remain constrained by the customer concentration risk, exposure to fluctuation in raw material prices and foreign currency exchange rates as majority of the raw material is imported, though some part of the exposure is covered through natural hedge. The ratings also takes into account the working capital intensive nature of business and vulnerability to agro-climatic conditions and inherent regulatory risk associated with the business.

Rating sensitivities

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

- Increase in scale of operations marked by total operating income increasing to Rs.1000 crore or above while maintaining PBILDT margin at 25% and above on a sustained basis
- Diversification in overall product portfolio within the envisaged timelines without any cost/time overrun
- Maintaining operating cycle at less than three months and optimising working capital utilization

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

- Elongation in operating cycle beyond 180 days and weakening of liquidity position
- Any debt funded capex/acquisition adversely impacting capital structure with overall gearing of more than 0.50x

Detailed description of the key rating drivers

Key rating strengths

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 and Indian Overseas Bank. Mr Agarwal is assisted by his two sons Mr. Vishal Swarup Agarwal and Mr. Vishwas Swarup Agarwal, both of them with post graduate qualification in Business Administration. The company has long standing association with the various stakeholders viz. customers, suppliers, etc. Most of the sales of the company are institutional sales made to companies with prominent presence in the domestic and international market.

Diversified product portfolio

IPL has around 28-30 molecules (technical) registered in India. The domestic product portfolio is dominated by a few off patent old generic molecules leading to moderate sales concentration risk. Company is continuously investing in its research and development capabilities to develop new molecules which are expected to reduce its dependence on old molecules. IPL has also registered its products (Captan and Folpet) for exports in across 25 countries including France, Turkey, Mexico, Iran, Portugal,

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Australia, Japan, Sri Lanka, Serbia, UK, Spain, USA which is a step towards reducing company's dependence over the domestic markets. Company had planned to introduce 8 new products by the end of FY23 earlier in FY22, out of which 5 products have been already launched in FY22 and out of remaining three products, one product has been launched in Q1FY23 i.e., Pretilachlor technical as a part of backward integration. Company is also engaged in manufacturing of formulations (99 formulations available in the domestic market and 34 formulations exported) and has a distribution network consisting of around 3500 distributors and sales force in place for marketing the same in various parts of the country viz. Gujarat, Rajasthan, Maharashtra, Andhra Pradesh, Madhya Pradesh, Punjab, Haryana, Uttar Pradesh, etc.

Sustained growth in scale of operations and profitability
The total operating income of the company grew by 10.86% in FY22 and stood at Rs.721.71 crore as against Rs.651.02 crore in FY21 which is further expected to increase in FY23 on the back of launch of five new products in FY22, one more product launched in Q1FY23 and two more products which are planned to launch by the end of FY23. The increase in revenue in FY22 was primarily on account of growth in formulation business & technical business on the back of healthy domestic demand and growing exports with significant market share for few technical products (including Captan Technical). The company has maintained healthy PBILDT margin (> 20%) over the past many years on the back of increased volumes with healthy margins and its leadership position in fungicides namely Captan Technical. PBILDT margin of the company has also increased from 28.44% in FY21 to 30.40% in FY22 on account of efficient asset utilization and efficient raw material procurement.

Healthy financial risk profile
The Financial risk profile of the company continues to be healthy characterized by improved overall gearing of 0.02x as on March 31, 2022, as against 0.11x as on March 31, 2021. Interest Coverage Ratio of the company remains healthy and stood comfortable at 33.73x for FY22 and TD/PBILDT and TD/GCA improved to 0.07x & 0.09x respectively in FY22 from 0.24x & 0.31x respectively in FY21.

Key rating weaknesses
Working capital intensive nature of business
During FY22, the operating cycle of the company continues to remain elongated at 138 days as compared to 104 days in FY21. The elongation in operating cycle was largely due to increase in the collection period which increased from 45 days in FY21 to 81 days in FY22. The inventory requirement for pesticides industry generally remains high due to commoditised nature of products and seasonality factor (high demand during crop sowing seasons). Further, company has to allow higher credit period for newly launched products to generate the demand for those products initially.

Customer concentration risk and exposure to fluctuations in raw material prices
During FY22, the company reported total net sales of Rs.709.16 crore, out of which ~39% was made to top 4 customers. The percentage of sales to top 4 customers has remained consistent over the last 4 years, thus exposing the company to customer concentration risk. However, a substantial part of sales is dependent over a small number of customers. The company remains exposed to the volatility in raw material prices. The major raw materials used in making captan technical are imported from China and Taiwan. Any unprecedented increase in raw material prices may result in lower operating margins going forward. Furthermore, new product launches by peers can affect demand, thereby weakening top line and cash accrual.

Exposure to foreign currency fluctuation risk
Company generated about 45-47% of the revenue in FY22 and Q1FY23 from exports which exposes company to inherent risk of foreign exchange fluctuation. However, IPL imports some portion of its raw material requirement, which provided a natural hedge to some extent. The company is paying to the overseas suppliers from the foreign currency receivable account and matches the payment structure for their imports with the receipt of export sales. The company majorly imports Tetra Hydro Phthalic Anhydride (THPA), Ammonium Thiocyanate, Di N Propylamine and Cyano Acetyl Ethyl Urea and the major countries are Taiwan and China. Though company is having hedging policy in place, but the total exports sales has been higher than the raw materials imported and so far in past few years the rupee has been on declining trend. During FY22, the company booked a net forex gain of Rs.5.57 crore (net forex gain of Rs.2.06 crore in FY21).

Vulnerability to agro-climatic conditions along with highly regulated and competitive nature of operations
The sales and profitability of the pesticides industry depends largely on the prevalent agro-climatic conditions in the domestic and global markets. However, to mitigate the risk IPL has diversified its sales in terms of geography. Company has presence across all major states in India and company has access to pesticides market of over 25 countries. 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 lead 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.

Liquidity: Strong
The liquidity position of the company is strong supported by free cash and bank balance of Rs.18.67 crore as on March 31, 2022. Apart from this, company held investment in mutual funds amounting to Rs.16.24 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 August 2022 stood about 14.02%. Company has negligible repayment obligation going forward as against the expected GCA of ~Rs.180 crore. The company has planned capex of Rs.70 crore in FY23 which will be funded through internal accruals of the company.

Analytical approach: Standalone factoring exposure towards subsidiary in the form of loans & advances/investment

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pesticide

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 contributed about 95% of total sales, while pharmaceutical intermediates contributed about 5% to total sales of the company in FY22. 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 June 30, 2022, the aggregate installed capacity of company's manufacturing facilities for agro-chemical Technical was 23,500 MT and Formulations was 6,500 MT.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	651.02	721.71	218.46
PBILDT	185.17	219.42	55.77
PAT	134.54	158.38	41.37
Overall gearing (times)	0.11	0.02	NA
Interest coverage (times)	53.95	33.73	33.00

A: Audited, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information:
Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:

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 Limited is also the Independent Director of CARE Ratings Ltd. Independent/Non-executive Directors of CARE Ratings Ltd. are not a part of CARE's Ratings Ltd.'s Committee and do not participate in the rating process.

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
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	80.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	80.00	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/ ST-Working Capital Demand loan	LT/ST*	80.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (02-Dec-21)	1)CARE A; Stable / CARE A1 (16-Mar-21)	1)CARE A-; Positive / CARE A2+ (02-Mar-20)
2	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1+	-	1)CARE A1+ (02-Dec-21)	1)CARE A1 (16-Mar-21)	1)CARE A2+ (02-Mar-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (16-Mar-21)	1)CARE A-; Positive (02-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

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 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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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