

NACL Industries Limited

July 07, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	400.38	CARE A; Negative (Single A; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	115.00	CARE A1 (A One)	Reaffirmed
Total Facilities	515.38 (Rs. Five Hundred Fifteen Crore and Thirty-Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NACL Industries Limited (NACL) continue to derive strength from established track record of the company along with experienced management, wide product portfolio, strong supply chain, reputed client base. Ratings also take cognizance of considerable improvement in the total operating income during FY22 (refers to the period April 01 to March 31). The ratings are, however, constrained by working capital intensive operations with significant increase in working capital borrowings during past twelve months ended May, 2022, moderate capital structure, input price volatility, demand prospects dependent on vagaries of nature, significant dependence on China for raw material import, project implementation risk associated with the debt funded greenfield project in one of its subsidiaries with substantial equity and guarantee commitment from NACL.

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 2000 crore or above while maintaining PBILDT margin at 15% and above on a sustained basis.
- ✓ Maintaining operating cycle at less than three months and optimising working capital utilisation.
- ✓ Overall gearing falling below 0.75x on a sustained basis.

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

- × Any time or cost overrun in completion of the Dahej project and stabilization of operations
- × Elongation of operating cycle beyond 120 days in future
- × Any deterioration in the solvency ratios or operating cash flows over FY22.

Outlook: Negative

Negative outlook on the rating reflects elongation in operating cycle resulting in high reliance on working capital borrowings and negative cash flow from operations as on Mar 31, 2022. The outlook may be revised to 'Stable' if NACL is able to improve its working capital cycle along with strengthening its capital structure, going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management in pesticide industry and established track record

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. MD is supported by a team of well-qualified and experienced professionals down the line.

Wide product portfolio with strong supply chain and diverse geographical presence

NACL has over 100 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 technical and formulations through its well-established supply chain comprising a vast network of dealers and agents spread across the country. The top 10 products contributed 55% of the revenue in FY22 which is adequately diversified. The company achieved around 64% of its revenue from domestic sales during FY22 and 36% from exports. NACL generates majority of its export sales from the USA, Netherlands, and Brazil. Furthermore, alliances with Krishi Rasayan Exports Pvt Ltd and Agro Life Science Corporation has also been enabling the company in sourcing raw material efficiently.

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

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. NACL regularly receives repeat orders from its established clients. NACL's clientele is fairly diversified with moderate concentration risk on top 10 clients, with the same contributing around 31% of the total sales in FY22 (42% of total sales in FY21).

Healthy growth in total operating income in FY22

NACL registered a healthy growth in total operating income by 38% from Rs. 1181.43 crore in FY21 to Rs. 1635.93 crore in FY22. The healthy growth is attributable to increase in both domestic sales and exports sales. There has been y-o-y increase in the contribution from technical division to the revenue. The company's capacity utilization stood at 92.43% and 66.57% for technical and formulation divisions respectively in FY22. The PBILDT margin remained stable at 8.26% in FY22 (8.30% in FY21). The PAT margin improved from 4.32% during FY21 to 4.49% with decrease in interest costs during FY22. Further, gross cash accruals (GCA) of the company stood healthy at Rs. 98.99 crore in FY22 vis-à-vis 74.82 crore in FY21.

Key Rating Weakness**Moderate capital structure**

Overall gearing of the company marginally deteriorated to 1.22x as on March 31, 2022 as against 0.57x as on March 31, 2021. There was a significant increase in debt outstanding as on March 31, 2022 when compared to previous year. While increase in term debt for the ongoing debt funded capex was envisaged, significant increase in working capital borrowings resulted in weakening of leverage indicators. Company has been facing logistical disruptions due to the pandemic and on-going war, this has not only resulted in increase in raw material prices but also increased the operating cycle. Thus, the working capital requirement has been high. Total debt/GCA deteriorated from 3.15x in FY21 to 6.02x in FY22 despite improvement in the GCA levels of the company. Going forward, improvement in leverage structure remains a key monitorable from rating perspective.

Elongation in operating cycle during FY22

NACL operates in an industry which is characterized by high inventory periods and elongated receivable period on account of the seasonality in sales. The operating cycle of the company elongated to 98 days in FY22 against 87 days in FY21. The inventory days have stretched from 70 days in FY21 to 81 days in FY22 because of the aforementioned reasons.

Stabilization risk in the ongoing capex

NACL has floated a wholly owned subsidiary in the name "NACL Spec-chem Limited" during Q1FY21 for undertaking greenfield project at Gujarat. The unit is being set up with an installed capacity of 25,000 MT per annum for manufacturing of technical and intermediate for domestic as well as export markets. The total project cost is Rs.202 crore funded with a debt-equity mix of 3.2:1. The project is in its final stages of completion and is expected to commence commercial operations by end of Q2FY23-Q3FY23. Ability of the company to stabilize operations and generate envisaged revenue and profits from this unit remains to be seen.

Vulnerability to volatility in raw material prices

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 25% to 30% of the raw material requirements. 90% of the total imports are from China and the remaining are primarily imported from Japan and Israel. The company entered into strategic alliance with Krishi Rasayan for backward integration of its key products which has reduced the dependency on China to some extent.

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.

Liquidity analysis – 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. 71.67 crore as on March 31, 2022. The average utilization of working capital limit remained at 57% for the last 12 months ended May 31, 2022. 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, going forward.

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.

Name of the Company	Relationship	Shareholding of NACL as on March 31, 2022
L R Research Laboratories Pvt Ltd	Subsidiary	100.00%
Nagarjuna Agrichem (Australia) Pty Ltd	Subsidiary	100.00%
NACL Spec- Chem Limited	Subsidiary	100.00%
NACL Multichem Private Limited	Subsidiary	100.00%
Nasense Labs Private Limited	Associate	26.00%

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis – Non-Financial Sector](#)

[CARE's Policy on Default Recognition](#)

[Rating methodology- Manufacturing companies](#)

[Rating Methodology: factoring linkages in ratings](#)

[Rating Methodology- Pesticides](#)

[Rating Methodology-Consolidation](#)

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	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)
Total operating income	999.68	1181.43	1635.93
PBILDT	48.00	98.04	135.06
PAT	16.74	50.99	73.42
Overall gearing (times)	0.82	0.57	1.22
Interest coverage (times)	1.65	3.51	5.07

A: Audited, P -Provisional

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	January 2031	96.38	CARE A; Negative
Non-fund-based - ST-BG/LC		-	-	-	115.00	CARE A1
Fund-based - LT-Cash Credit		-	-	-	220.00	CARE A; Negative
Fund-based - LT-Working Capital Demand loan		-	-	-	5.00	CARE A; Negative
Fund-based - LT-Packing Credit in Foreign Currency		-	-	-	79.00	CARE A; Negative

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-Term Loan	LT	96.38	CARE A; Negative	-	1)CARE A; Stable (30-Sep-21) 2)CARE A; Stable (06-Jul-21) 3)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)
2	Non-fund-based - ST-BG/LC	ST	115.00	CARE A1	-	1)CARE A1 (30-Sep-21) 2)CARE A1 (06-Jul-21) 3)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)
3	Fund-based - LT-Cash Credit	LT	220.00	CARE A; Negative	-	1)CARE A; Stable (30-Sep-21) 2)CARE A; Stable (06-Jul-21) 3)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)
4	Fund-based - LT-Working Capital Demand loan	LT	5.00	CARE A; Negative	-	1)CARE A; Stable (30-Sep-21) 2)CARE A; Stable (06-Jul-21) 3)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; Negative	-	1)CARE A; Stable (30-Sep-21) 2)CARE A; Stable (06-Jul-21) 3)CARE A-; Positive (12-May-21)	1)CARE A-; Positive (10-Dec-20) 2)CARE A-; Stable (08-Oct-20)	-

*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-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

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 Ratings Ltd. 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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