

Bhagiradha Chemicals and Industries Limited

September 09, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	41.50	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	42.25	CARE A2 (A Two)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	83.75 (₹ Eighty-Three Crore and Seventy-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Bhagiradha Chemicals and Industries Limited (BCIL) takes into account improvement in financial and operational performance in FY22 (refers to the period between April 01 to March 31) and Q1FY23 backed by healthy demand for BCIL's key products, healthy profitability margins with further improvement over FY21, funds raised by way of rights issue in Q1FY23. The ratings continue to derive strength from experienced promoters with long track record of operations, reputed client base, established Research & Development facilities, comfortable capital structure, healthy debt coverage indicators and adequate liquidity position. The rating strengths are however partially offset by delay in project progress due to delay in receipt of Environment Clearance (EC) from the Ministry of Environment and Forests & Climate Change, Government of India resulting in time and cost overrun, uncertainty on ban of one of its product Chlorpyrifos which contributed about 22% to overall revenue in FY22, ongoing debt funded capex at subsidiary level, volatility in raw material prices, revenue concentration risk, business susceptible to vagaries of nature and company's operations being subject to strict regulatory compliance.

CARE Ratings Ltd. has withdrawn the rating assigned to the Bank facilities (Stand by line of credit) of BCIL with immediate effect, as the company has surrendered the aforementioned stand by line of credit in full and there is no amount outstanding under the facility as on date.

Rating sensitivities

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

- Improvement in total operating income by more than 20% and PBILDT margin of 17% on a sustained basis.
- Ability of the company to diversify its product offering and reduce the revenue concentration to less than 25% per product

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

- Further cost or time overrun in the project being executed under its subsidiary (Bheema Fine Chemicals Private Limited) resulting in considerable increase in exposure towards the project by BCIL which is higher than the committed investment.
- Any unprecedented increase in the total debt levels leading to deterioration of overall gearing ratio to above 1x in future
- Decline in revenue by more than 20%, going forward

Detailed description of the key rating drivers

Key rating strengths

Improved financial and operational performance coupled with healthy profitability levels and margins: In FY22, total operating income (TOI) of the company increased by about 37% from Rs 318.06 crore in FY21 to Rs.435.67 crore at the back increase in demand for products offered by BCIL. Growth is primarily derived by healthy sale of one of its agrochemical technical products named Azoxystrobin, which reported sales of ~Rs.172 crores in FY22 against ~Rs.101 crores in FY21. Apart from this, other products also reported growth which resulted in improved total operating income. During FY22, the company has achieved a capacity utilization (CU) of 79.93% (PY: 69.73%). With increase in TOI, PBILDT also witnessed increased by 45% to Rs.68.28 crore. With interest and depreciation cost remaining almost similar to that of FY21 coupled with improved PBILDT, PAT increased by 53% to Rs.35.75 crore. With higher demand for its products, BCILs sales realizations increased resulting in better profitability margins in FY22. PBILDT and PAT margins of the company improved to 15.67% (PY: 14.79%) and 8.21% (PY: 7.33%) in FY22. BCILs gross cash accruals (GCA) remained healthy with further increase to Rs.51.20 crore in FY22 (PY: Rs.34.64 crore).

BCIL continued to report better financial performance in Q1FY23 with revenue of Rs.121.89 crore which are higher by about 24% of revenue compared to revenue reported in corresponding quarter of previous year i.e., Q1FY22 and PBILDT margin improved by 82 bps i.e., to 16.21% compared to margins reported in Q1FY22.

Experienced promoter group with established presence in the Agrochemicals Industry: BCIL was promoted by Late Mr. Singavarapu Koteswara Rao and Mr. Dodda Sadasividu in 1993. The company is currently managed by Mr. S. Chandrasekhar (son of Late Mr. Koteswar Rao), who is the Managing Director of the company. Mr. Chandrasekhar completed his B. Tech in

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

Chemical Engineering from Osmania University and M.S. in Chemical Engineering from University of Illinois, Chicago, USA. He joined BCIL in the year 2001 and worked as R&D Manager. The company has a strong team of other key managerial persons who are highly qualified and possess abundant experience in their respective domains.

Strong in-house Research and Development: BCIL has an established and continuously upgraded R&D division located at the factory premises, which is recognized by the Ministry of Science & Technology, Government of India. Given the huge competition from the domestic and large MNC's, R&D activity plays an important role for the players participating in the pesticide industry. On average BCIL spent about Rs 1.50 crore for R&D for the past three years. At BCIL, the R&D teams have successfully worked and implemented various processes upgrading methods through backward integration of production process, developed viable processes for several production processes and developed new chemicals. The company tries to optimize its existing technologies and scale up operations aided by the seamless efforts of the R&D team, which has resulted in development of several new products and enabled the company to hold process patents for one of their major products Azoxystrobin. During the past three years, BCIL commercialized three insecticides, namely, Fipronil, Pymetrozine and Dinotefuran.

Established product line: Pesticides are broadly classified into insecticides, herbicides, fungicides, rodenticides etc. depending on the type of pest they control. BCIL manufactures insecticides, herbicides, and fungicides (majorly technical with very small portion of formulations) and has a product portfolio of over 13 products with 10 more products under development. The major products of BCIL include Chlorpyrifos, Chlorpyrifos Methyl, Triclopyr, Azoxystrobin, and Fipronil.

Healthy capital structure and debt coverage indicators: As of March 31, 2022, debt profile of BCIL consists of term loan availed for setting up new product line and working capital borrowings. Despite the increase in the total debt outstanding from Rs.62.41 crore as on March 31, 2021 to Rs.80.77 crore as on March 31, 2022 primarily led by increase in working capital borrowings, capital structure of the company marked by long term debt equity ratio and overall gearing are remained healthy at 0.08x (PYE: 0.15x) and 0.43x (PYE: 0.40x) respectively as on March 31, 2022. This is on account of the healthy accruals of the company in FY22 leading to improved net worth. Net worth of the company improved to Rs.189.64 crore as on March 31, 2022 from Rs.155.42 crore as on March 31, 2021. Other debt coverage indicators, interest coverage ratio and TDGCA of the company improved and remained healthy at 7.51x (PY: 5.69x) in FY22 and 1.58x (PYE: 1.80x) as on March 31, 2022. It is to be noted that the company had prepaid the entire term loans outstanding in Q1FY23. BCIL in Q1FY23, raised funds amounting to ~Rs.83 crore by way of rights issue. The proceeds are proposed to be utilised to ease the working capital requirements.

Comfortable operating cycle: Company procures the raw material majorly from indigenous market at 70%-75% of total purchases and imports raw materials from China which contributes around 20%-25% of total purchases. Payment terms with suppliers range from 60 to 90 days. BCIL provides credit period of 90 to 120 days to its customers and holds inventory for a period of 90 days. Operating cycle of the company had increased marginally to 70 days in FY22 (PY: 63 days) on account of increase in average collection period to 65 days (PY: 40 days). On an absolute level, total receivables increased to Rs.96.59 crore as on March 31, 2022 (PYE: Rs.59.66 crore). Increase in o/s receivables as on closing date is due to debtors pending for realization towards the sales reported in last quarter of FY22 which was about Rs.138 crore compared to average sales for last 3 quarters of about Rs. 99 crore. Despite higher receivables outstanding as of March 31, 2022, majority of debtors i.e., about 80% remained below 60 days.

Industry Outlook: Agrochemicals are broadly classified as insecticides, herbicides, fungicides, rodenticides, bio pesticides and nematocides depending on the type of pest they control. Indian Agrochemical industry has approximately 125 technical grade manufacturers, 800 registered formulators, more than 1,45,000 distributors and 60 technical grades pesticides. Around 80% of the generic and non-generic pesticides are manufactured by major Indian manufacturing and multinational companies. Industry is dominated by insecticides accounting for 60% of overall demand. Paddy accounts for the maximum (26%-28%) share of pesticide consumption followed by cotton (18%- 20%). The Asia Pacific region gives domestic as well as international companies a place to grow within the region. The Indian agrochemicals market size reached a value of almost USD 5.72 billion in the year 2021. The market is further expected to grow at a CAGR of 8-10% till 2025. India is a net exporter of agrochemicals and the thirteenth largest exporter of pesticides and disinfectants. The country's exports have increased due to low-cost manufacturing, availability of technically trained manpower, seasonal domestic demand, overcapacity, competitive pricing and strong presence in generic pesticide manufacturing. A 2034 vision for the chemicals and petrochemicals sector has been set up by the government to explore opportunities to improve domestic production, reduce imports and attract investments in the sector. The government plans to implement production-link incentive system with 10-20% output incentives for the agrochemical sector; to create an end-to-end manufacturing ecosystem through the growth of clusters.

Key rating weaknesses

Delay in receipt of EC resulting in time and cost overrun: Despite Bheema applying for EC from the Ministry of Environment and Forests & Climate Change, Government of India in FY21, there was a significant delay in receipt of approvals due to overall disruption of services in Central Government offices in Delhi on account of prevalence of Covid. However, the EC approval and Consent for Establishment (CFE) was received in H1FY22 and Bheema commenced civil works at site. Delay in the receipt of approvals resulted in time overrun for Phase I of project by one year with commercial operations expected from December 2023 and cost overrun of Rs.30 crore.

Ongoing debt funded capex at subsidiary level: BCIL had signed an MOU with the Government of Karnataka for setting up manufacturing unit in Kadechur industrial area, Yadgir Dist., Karnataka, through its wholly owned subsidiary- "Bheema Fine Chemical's Pvt Ltd" (Bheema). The project is envisaged to be completed in three phases at an estimated project cost of Rs 350 crore. First Phase of the project was initially expected to be completed by December 2022 with cost of Rs. 120 crores. However, due to delays in approvals, there is an escalation in project cost by Rs.30 crore i.e., the project cost now envisaged is Rs.150 crore and the same is expected to be met thru internal accruals of about Rs.105 crore and balance through term debt. BCIL shall be extending corporate guarantee towards the debt proposed to be availed by Bheema in FY24 for phase I. The project is at a nascent stage and any further delay which might result in additional cost over and above the committed equity contribution is a key rating factor.

Proposed ban On Chlorpyrifos: In May 2020, Government of India announced that it has decided to impose ban on 27 widely used pesticides out of which one product named Chlorpyrifos is manufactured and sold by BCIL which contributes significantly (about 22% in FY22) to overall revenue. However, the ban is yet to be imposed and BCIL continues to sell the product and derive benefits from the same. Further, BCIL also introduced other products into the market which have seen wide acceptance as a result of which the risk is partially mitigated. However, given the contribution of Chlorpyrifos to overall revenue, the impact is likely to be seen if the proposed ban is imposed.

Revenue concentration risk: Although BCIL has over twenty products and expertise of other processes, the revenue streams of the company are concentrated towards four products which together contribute 84% of the gross sales for the company in FY22 (similar to FY21). Hence, the revenue profile remains skewed towards these top four products and prospects of the company depend upon demand of these products. Nevertheless, BCIL is in the process of diversification by adding new products to its portfolio.

Volatility in the raw material prices and foreign exchange risk: Raw material cost is the major cost element for the company with contribution of ~64% to the cost of sales in FY22 (compared to ~63% in FY21). The major raw materials consist of several chemical compounds predominantly Tri Chloro Acetyl Chloride (TCAC), Di Ethyl Thiophosphoryl Chloride (DETC), Tri Methyl Ortho Formate, O Chloro Benzyl Cyanamide, Pyrrolidine, Sodium Salt, etc. and majority of these materials cost increased by 40 to 75%. The prices of the major inputs (chemicals compounds) are volatile in nature which may impact the profitability of the company given the limited pricing flexibility in view of huge competition in the industry, particularly cheap exports from China. However, the company has successfully finished its backward integration capex of azoxystrobin which reduces the volatility.

High dependency on monsoon/ climatic condition and crop cycle for revenue: In India cropping season is mainly classified into Kharif (July to October) and Rabi (October to March). The Kharif crops include rice, maize, sorghum, pearl millet/bajra, finger millet/ragi (cereals), arhar (pulses), soybean, groundnut (oilseeds), cotton etc. The Rabi crops include wheat, barley, oats (cereals), chickpea/gram (pulses), linseed, mustard (oilseeds). BCIL derives its sales from the agriculture sector, which is highly dependent upon monsoons as well as incidence of fungal/pest attack on crops. Further, given the demand dependent on monsoon, the industry (in India) is characterized by seasonality. To address the seasonality issue, however, the company has diversified and increased its sales into the export markets and export sales contributed 24% of TOI during FY22.

High exposure to government regulations: BCIL has high exposure towards government regulations both by Indian government and customer country. Government of India vide draft gazette notification dated May 18, 2020 has placed 27 insecticides/ pesticides into a banned category, post the period of 45 days from date of publication of notification. The notification is however a draft version and is subjected to revision in the final order. BCIL's product portfolio consists of two pesticides i.e., chlorpyrifos and sulfosulfuron which are a part of the banned pesticides as per the draft gazette. Furthermore, chlorpyrifos alone contributed to 22% of the gross sales for the company during FY22. Further, BCIL has already developed two substitute products to the banned product which are under trial runs and can be replaced/launched depending on need basis. As on January 27, 2021 the government has appointed an expert panel to review industry objections and no update/circular passed in this regard. However no further intimation/notification provided regarding the ban of above-mentioned pesticides till July,2022.

Liquidity: Adequate

The liquidity position of the company is adequate marked by accruals of Rs. 51.20 crore as on March 31, 2022 with a repayment obligation of Rs.5.99 crore. BCIL prepaid the entire term loans in Q1FY23 and there is no further repayment for FY23. Average utilization of fund based working capital limits for last 12 months ended June 2022 remained at about 34% providing sufficient headroom to meet any working capital requirements. Liquidity is supported by positive cash flows from operations and above unity current ratio as on March 31, 2022. Internal accruals of the company are sufficient to meet the repayment of term loan projected in FY24 with accredited profits.

Analytical approach: Consolidated

CARE has analysed Bhagiradha Chemicals & Industries Limited (BCIL's) credit profile by considering the consolidated financial statements (comprising BCIL and its subsidiary; Bheema Fine Chemicals Private Limited (Bheema)) owing to financial and operational linkages between the parent and its subsidiary. Bheema, currently is under project stage and the products proposed

to be manufactured shall be mostly similar to those of products manufactured by BCIL. Both the companies are run by common management. The consolidated financial statements include BCIL (the holding company) and its following Subsidiary:

- Bheema Fine Chemicals Private Limited: 100% subsidiary

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

Bhagiradha Chemical Industries Limited (BCIL) was incorporated as a public limited company under the Companies Act, 1956, at Hyderabad in the State of Andhra Pradesh. BCIL is engaged in manufacturing of agrochemicals like pesticide, insecticide, herbicide etc. BCIL has set up its manufacturing facility at Prakasam district, Andhra Pradesh, spread across an area of 71.68 acres which commenced commercial production in 1995-96. The major products include Chlorpyrifos –Technical (Tech), Fluroxypyr – Tech, Triclopyr –Tech, Imidacloprid – Tech and Azoxystrobin – Tech. The company has been constantly expanding its product profile by adding new products to its ambit.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	318.06	435.67	121.89
PBILDT	47.05	68.28	19.76
PAT	23.32	35.75	11.90
Overall gearing (times)	0.40	0.43	NA
Interest coverage (times)	5.69	7.51	NA

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

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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	41.50	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	42.00	CARE A2
Non-fund-based - ST-Bank Guarantee		-	-	-	0.25	CARE A2
Fund-based - ST-Standby Line of Credit		-	-	-	0.00	Withdrawn

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	-	-	1)Withdrawn (01-Sep-22)	1)CARE BBB; Stable (16-Jun-21)	1)CARE BBB-; Negative (11-Sep-20)	1)CARE BBB- (CWN) (18-Feb-20) 2)CARE BBB (CWN) (12-Nov-19) 3)CARE BBB; Stable (08-Jul-19) 4)CARE BBB; Stable (03-Jul-19)
2	Fund-based - LT-Cash Credit	LT	41.50	CARE BBB+; Stable	1)CARE BBB+; Stable (01-Sep-22)	1)CARE BBB; Stable (16-Jun-21)	1)CARE BBB-; Negative (11-Sep-20)	1)CARE BBB- (CWN) (18-Feb-20) 2)CARE BBB (CWN) (12-Nov-19) 3)CARE BBB; Stable (08-Jul-19) 4)CARE BBB; Stable (03-Jul-19)
3	Non-fund-based - ST-Letter of credit	ST	42.00	CARE A2	1)CARE A2 (01-Sep-22)	1)CARE A3+ (16-Jun-21)	1)CARE A3 (11-Sep-20)	1)CARE A3 (CWN) (18-Feb-20) 2)CARE A3+ (CWN) (12-Nov-19) 3)CARE A3+ (08-Jul-19) 4)CARE A3+ (03-Jul-19)
4	Non-fund-based - ST-Bank Guarantee	ST	0.25	CARE A2	1)CARE A2 (01-Sep-22)	1)CARE A3+ (16-Jun-21)	1)CARE A3 (11-Sep-20)	1)CARE A3 (CWN) (18-Feb-20) 2)CARE A3+ (CWN) (12-Nov-19) 3)CARE A3+ (08-Jul-19) 4)CARE A3+

								(03-Jul-19)
5	Fund-based - ST- Standby Line of Credit	ST	-	-	1)CARE A2 (01-Sep-22)	1)CARE A3+ (16-Jun-21)	1)CARE A3 (11-Sep-20)	1)CARE A3 (CWN) (18-Feb-20) 2)CARE A3+ (CWN) (12-Nov-19) 3)CARE A3+ (08-Jul-19) 4)CARE A3+ (03-Jul-19)
6	Fund-based - LT- Working Capital Demand loan	LT	-	-	1)Withdrawn (01-Sep-22)	1)CARE BBB; Stable (16-Jun-21)	1)CARE BBB-; Negative (11-Sep-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-Cash Credit	Simple
2	Fund-based - ST-Standby Line of Credit	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	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: Y Tejeshwar Reddy
Phone: 9849573699
E-mail: Tejeshwar.Reddy@careedge.in

Relationship contact

Name: Ramesh Bob Asineparthi
Phone: +91 90520 00521
E-mail: ramesh.bob@careedge.in

About us:

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