KR Lifesciences Private Limited

October 10, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	73.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed; Outlook revised from Positive
Short Term Bank Facilities	57.00 (Enhanced from 47.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**130.00 (₹ One Hundred Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to KR Lifesciences Private Limited (KLPL) continues to derive strength from experienced promoters with long and satisfactory track record, wide product portfolio with strong distribution network, strategic location of manufacturing units and warehouse, moderate financial performance with improvement in profitability in FY22 over FY21 along with moderate capital structure and debt protection metrics.

The ratings however constrained by volatility in raw material prices, working capital intensive nature of operations, exposure to foreign exchange fluctuation risk, high dependence on monsoon as well as highly regulated and competitive nature of the industry.

The revision in the outlook for the long-term facilities from 'Positive' to 'Stable' is on account of lower than envisaged scale of operations in FY22 (refers to the period from April 01 to March 31) and expected moderation in profitability in near to medium term over FY22.

Rating Sensitivities

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

- Growth in scale of operations as marked by total operating income of above Rs.450 crore on sustained basis
- Increase in profitability margins as marked by PBILDT margin and PAT margin of above 8% and 3% respectively on sustained basis.
- Improvement in overall gearing below unity (excluding Optionally convertible redeemable preference share).

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

- Any major debt funded capex undertaken by the company leading to deterioration in credit risk profile from current level.
- Moderation in operating margins below 5% on sustained basis.
- Inability of the company to maintain unsecured loan in system at current level on sustained basis.
- Deterioration in overall gearing above 1.50 times (excluding Optionally convertible redeemable preference share) on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long and satisfactory track record

The company is part of the Krishi Rasayan group which is engaged in the business of agrochemicals for five decades and has established itself in the domestic agrochemicals industry. The promoter is engaged in the similar business in joint venture with other promoter through entities namely Krishi Rasayan Exports Private Limited and Agro Life Science Corporation. Mr. Atul Churiwal, MD, has over 35 years of experience in the agrochemical business and is responsible for the day to day operations of the company. He is supported by a team of experienced professionals.

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

Wide product portfolio and strong distribution network

KLPL's products (erstwhile products of Krishi Rasayan, partnership firm) are extensively used in the agricultural industry. The company only deals with generic/off-patented agrochemicals where it sources the active ingredient and then formulates the end product based on its own specifications. KLPL has more than 170 products in its portfolio which are sold in various SKUs (from 10 grams to 25 kg packs) having a shelf-life of around 2 years. KR sells its product through more than 1,300 distributors across Odisha, West Bengal, Tamil Nadu, Karnataka, Assam, Gujarat and Maharashtra. The company has dedicated warehouses in each region from where the products are distributed to the end users.

Strategic location of manufacturing units and the warehouse

The manufacturing facilities of KLPL are located at Ranital, Odisha and Kolkata, West Bengal. The finished goods from both facilities are distributed to all the states in which the company operates. The manufacturing facilities are in close proximity to the Khidderpore Port near Kolkata which enables easy transportation of raw material and export of finished goods.

Moderate financial performance with improvement in operating margins in FY22

In FY22, although total operating income (TOI) of the company remained at similar levels of FY21, there had been substantial improvement in PBILDT margins by 290 bps over FY21. The improvement was mainly on account of increase in brand sales which commands higher margins than trading sales and inventory gains attributable to substantial increase in prices during the year due to Covid-19 pandemic. Absolute PBILDT increased to around Rs.29 crore in FY22 from Rs.18 crore in FY21. PAT margins also improved by 59 bps in FY22 over FY21. PAT margins improved despite increase in capital charges attributable to amortization of intangible assets of around Rs.6 crore, which is being accounted for transfer of business from partnership firm to company. Gross Cash Accruals (GCA) stood at Rs.22 crore.

In 5MFY23, the company earned TOI of Rs.180 crore.

Moderate capital structure and debt protection metrics

Capital structure of the company continued to remain moderated marked by overall gearing of 1.78x as on March 31, 2022. The overall gearing witnessed moderation in FY22 as against 1.34x as on March 31, 2021, mainly due to issue optionally convertible redeemable preference shares (OCRPS) to the tune of Rs.80 crore to the partners of Krishi Rasayan as consideration for transfer of business to KLPL. Also, utilization of working capital limits increased towards year end due to stocking of inventory in anticipation of increase in raw material prices.

Nonetheless, despite increase in total debt, debt protection metrices witnessed improvement in FY22 due to improved margins. Accordingly, TD/GCA and interest coverage stood at 9.0x and 4.07x as on March 31, 2022, as against 10x and 2.23x as on March 31, 2021 respectively.

Key Rating Weaknesses

Working capital intensive nature of operations

The agrochemicals industry is highly working capital intensive in nature owing to the seasonality factor in the business. The demand for the products is high during crop sowing season and it also depends on the success or failure of the monsoon season. KLPL is required to maintain large inventory of its products before the season starts. The company is also required to stack up large inventory of raw materials such as emulsifiers and solvents in order to cope up with the sudden increase in demand which depends on the success of the crop season which is unpredictable. The high inventory and collection period results in large working capital requirement which is met to an extent by the creditor's period of around three to four months. In FY22, the working capital cycle slightly moderated and stood at 107 days vis-à-vis 98 days in FY21 on the back of stocking of inventory as price of raw materials was expected to increase.

Volatility in raw material prices

The major raw materials for KLPL include active ingredients (technical grade molecules), emulsifiers and solvents. The prices of solvents and emulsifiers are linked to crude oil prices hence are volatile in nature. The active ingredients are primarily sourced from China, Hong Kong, Singapore and Taiwan.

The prices depend upon the quality and effectiveness of these ingredients and the firm generally sources the molecules from selected suppliers in these countries. KR has long term relationship with these suppliers; however, it does not enter into long term contracts. During FY22, the company imported about 36% of its raw materials consumed vis-à-vis 39% in FY21.

Foreign currency fluctuations risk

KLPL is exposed to foreign currency fluctuation risk as it imports significant amount of its raw material requirement. Imported raw material accounts for around 36% of the total raw material cost of the company. Though the company also exports, it constitutes a small portion of sales (Rs.22.10 crore in FY22 as against Rs. 19.36 crore in FY21).

KLPL hedges it forex payments 60-90 days before the payments due dates after considering the hedging cost involved. The company reported a forex gain of 0.70 crore in FY22 vis-à-vis forex gain of Rs.0.60 crore in FY21. Nonetheless, global macro-economic factors induced sharp volatility in the dollar/INR rate exposes the company to foreign currency fluctuation risk.

Highly dependent upon monsoon and climatic conditions

The agrochemicals industry derives its sales from the agriculture sector, the performance of which is highly dependent upon the monsoon as well as incidence of fungal/pest attack on crops. The company has wide presence in various states in eastern, southern and western part of the country which mitigates the risk to some extent.

Highly regulated and competitive nature of operations

The pesticides industry is marked by high fragmentation with the absence of any player having sizeable market share. The intense competition leads to competitive pricing and lower margins. The agrochemical industry is a highly regulated industry due to prohibited usage of certain molecules owing to their toxic nature. The pesticides are regulated products and require prior registration with CIBRC before they are allowed to be sold.

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 seems sanguine.

Going forward, with acreage and crop prices both improving, the sector is structurally well-placed and the farming community will be having good liquidity to spend money to safeguard their crop from pests and diseases.

Liquidity: Adequate

Adequate liquidity profile of the company is marked by sufficient cushion in gross cash accruals of Rs.21.61 crore vis-à-vis negligible debt repayment obligations in FY22, supported by above unity current ratio as on March 31, 2022. This apart, average utilization of fund-based limits stood at around 62% in the last 12 months ending June 30, 2022.

Going forward, liquidity position of the company is expected to remain adequate on account of sufficient cushion in GCA vis-à-vis debt repayment obligations in FY23 and enhancement in working capital limits which are expected to remain adequate to meet its incremental need to support the increase scale of operation.

Analytical approach: Standalone. Audited financials of Krishi Rasayan till FY21 has been considered as businesses of Krishi Rasayan have been transferred to KR Lifesciences Private Limited (KLPL, incorporated in December, 2020) with effect from April 01, 2021 as per business transfer agreement dated March 23, 2021.

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

About the company

Krishi Rasayan (KR) was established as a partnership firm in 1966 by Mr. Parmanad Churiwal, father of the present Managing Partner Mr. Atul Churiwal. It is engaged in manufacturing and formulation of agrochemicals such as pesticides, fungicide, weedicide, insecticide, herbicide and Plant Growth Regulators (PGR), etc. which are used in the agricultural sector by farmers to protect their crops from insects, weeds and pests as well as to improve yield. It set up its first plant in Odisha and commenced commercial production in 1967. The second manufacturing unit in Kolkata, West Bengal (Unit II) was commissioned in the year 2010. The firm also traded in agrochemicals.

Now with business transfer agreement dated March 23, 2021, businesses of Krishi Rasayan has been transferred to KR Lifesciences Private Limited (KLPL, incorporated in December, 2020) with effect from April 01, 2021.

Brief Financials (₹ crore)	March 31, 2021 (A)*	March 31, 2022 (A)	5MFY23 (U/A)
Total operating income	366.38	371.21	180.0
PBILDT	18.28	29.29	NA
PAT	7.02	9.30	NA
Overall gearing (times)	1.34	1.78	NA
Interest coverage (times)	2.23	4.07	NA

A: Audited; U/A: Unaudited; NA: Not Available; *financials are pertaining to Krishi Rasayan.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	73.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	57.00	CARE A3+

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-Cash Credit	LT	73.00	CARE BBB; Stable	1)CARE BBB; Positive (04-Apr-22)	1)CARE BBB; Positive (14-Feb-22)	-	-
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	-	-	1)Withdrawn (04-Apr-22)	1)CARE BBB; Positive / CARE A3+ (14-Feb-22)	-	-
3	Non-fund-based - ST-BG/LC	ST	57.00	CARE A3+	1)CARE A3+ (04-Apr-22)	1)CARE A3+ (14-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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	Non-fund-based - ST-BG/LC	Simple

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.

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Gopal Pansari
Phone: 9331331422
E-mail: gopal.pansari@careedge.in

Relationship contact
Name: Lalit Sikaria
Phone: + 91-033- 40181600
E-mail: lalit.sikaria@careedge.in

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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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