NACL Industries Limited

May 12, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	288.56 (Reduced from 301.56)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed
Short Term Bank Facilities	85.00 (Enhanced from 72.00)	CARE A2+ (A Two Plus)	Reaffirmed
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 reaffirmation of the rating with revision in the bank facilities of NACL Industries Limited (NACL) take into account considerable improved in financial performance during 9MFY21 leading to healthy gross cash accruals, improvement in liquidity marked by reduced reliance on working capital borrowings due to efficient working capital management while maintaining healthy cash and liquid funds. The ratings continue to derive strength from equity infusion by; Krishi Rasayan Exports Private Limited and Agro Life Science Corporation and the promoter which was utilized to ease working capital requirements and meeting the capex requirements, improvement in capital structure, debt coverage indicators and working capital cycle. The ratings further continue to derive strength from established track record of the company in the pesticide business, experienced management, diversified product range with presence across the domestic and international markets and alliances with Krishi Rasayan Exports Private Limited. The ratings are, however, constrained by dependence upon monsoon and climatic conditions, exposure to foreign exchange fluctuation risk, working capital intensive nature of the operation and undertaking of debt-funded Greenfield project in one of its subsidiaries with substantial equity commitment from NACL. The company also has plans to undertake a major greenfield project in its another subsidiary and the same is at very nascent stage, nonetheless undertaking of the above two greenfield projects even in phase-wise manner entails substantial equity commitment and also exposes it to the project implementation risk.

Rating Sensitivities

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

- To exhibit growth in the total operating income by 10% and achieve PBILDT margin of more than 12% on a sustainable basis.
- To maintain the overall gearing below 0.7x on continuous basis

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

- Deterioration in PBILDT margin to less than 7% levels and PAT margin to less than 1.5% on sustained basis
- Stretch in debtor realization days beyond 150 days.
- Substantial infusion of funds in subsidiaries over and above committed

Outlook: Positive

The outlook on the long-term rating of NACL has been revised from ‘Stable’ to ‘Positive’ on CARE’s expectation of improvement in its business and financial risk profile in the medium term marked by steady growth in its scale of operations and improvement in its profitability margin along with controlled working capital requirement resulting in healthy cash flow generation. The outlook may be revised to ‘Stable’ if there is a sizable decline in NACL’s profitability or significant stretch in its working capital requirement or any material adverse impact on its debt coverage indicators due to large size acquisition/capex or any other event.

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 and the operations are being managed by Mr M. Pavan Kumar. 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 such as Mr Sudhakar Kudva who has 40 years of experience in wide range of industries and Mr N. Vijayaraghavan who has vast experience in Marketing and General Management. The company is also supported by Mr R.K.S. Prasad who is the CFO of the company and has more than 40 years of experience in agribusiness and finance.

Healthy growth in the total operating income and profitability margins during FY20 and 9MFY21

NACL registered a growth in the total operating income by 15.02% in FY20 to Rs.1,021.90 crore against a growth of 2.93% in FY19. The healthy growth is attributable to increase in both domestic sales and exports sales. The domestic business grew by 18% in FY20, mainly on account of favorable monsoon conditions and the export turnover increased by 15% during FY20 due to increase in off-take by companies such as Syngenta Asia Pacific Pte. Ltd, Nissan Chemical, etc. The technical division and formulations segments contributed to 38.13% and 61.87%, respectively, during FY20, and there has been y-o-y increase in the contribution by technical division to the revenue (38.13% in FY20 against 35.2% in FY19). The company's capacity utilization stood at 74.89% and 88.33% for technical and formulation divisions, respectively, in FY20 (73.77% and 98.44% in FY19). Further the company registered a turnover of Rs.869.76 crore during the nine-month period ended December 31, 2020, growth of 17% against 9MFY20. The PBILDT margins also improved substantially to 10.72% during 9MFY21 against FY20 steady margins of 7.40%. The improvement in margins is due to change in product mix and introduction of new products in technical and formulation division during the past 12 months period.

Wide product portfolio with strong supply chain

NACL has 96 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 consisting of a vast network of dealers and agents spread across the country. It has a strong logistic presence with over 42 Stock points across India for faster deliveries. The company's product portfolio includes over 52 brands with a strong network of about 13,000 dealers, 5 regional warehouses and 37 C&F location across the country (stock will be moved from factory to regional warehouses and from regional warehouses to C&F and from C&F sale will made to the dealers). Export and corporate sales are being made directly from the manufacturing facilities. NACL launched 13 new products during FY20. Further NACL introduced 6 new products(4 under formulation and 2 under technical) during H1-FY21.

Geographical diversification:

The company achieved around 74.34% of its revenue from domestic sales during FY20 (73.92% in FY19) and remaining 25.66% revenue from exports (26.08% in FY19). A significant proportion of the exports are routed through international players with whom the company has distribution tie-ups in respective of export markets. The company primarily sells formulations in the domestic market, while its technicals are predominantly exported. NACL derives majority of its export sales from Brazil (32.71% of the export sales) followed by Japan(17.64% of the export sales) and USA(13.46% of the export sales). The revenue contribution from domestic sales continues to be around 74.00% during H1-FY21.

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 for the last few years. NACL's clientele is fairly diversified with moderate concentration risk on top 10 clients, with the same contributing around 39.56% of the total gross sales in FY20 (31.86% of the total gross sales in FY19).

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, which was infused during FY19 (Rs.51.25 crore) and FY20 (Rs.48.75 crore). The same is being utilized by the company to launch new products, for capex requirements and the remaining to support the company's long-term working capital requirements. NACL stands to gain from this alliance and network of the equity investor. Krishi Rasayan has a strong network base in China and other countries which would enable NACL to procure raw materials at competitive prices going forward, thereby mitigating the impact on the company's profitability margins.

Comfortable capital structure and improved debt coverage indicators during FY20 and 9MFY21

The overall gearing of the company improved from 0.85x as on March 31, 2019, to 0.83x as on March 31, 2020, on account of accretion of profits to networth coupled with fresh equity infusion of Rs.60 crore from Krishi Rasayan Exports Private Limited, Agro Life Science Corporation and by Mrs K. Lakshmi Raju during FY20. The company's debt profile primarily comprises rupee term loans and working capital bank borrowings. In FY20, debt coverage indicators, i.e., TDGCA and interest coverage ratio improved to 6.53x (from 32.03x in FY19) and 2.59x (from 1.12x in FY19) in FY20, respectively. The same was due to healthy cash accruals in FY20 attributed by increase in the profitability margins. Further the overall gearing improved to 0.57x as on September 30, 2020 from 0.83x as on March 31st, 2020. The improvement is attributable to relatively lower working capital utilization levels backed by healthy cash accruals and healthy profitable margins during H1-FY21. The PBILDT interest coverage ratio improved to 4.25x during 9MFY21 (from 2.59x in FY20).

Stable industry outlook

Due to the timely onset of monsoons which has improved the water levels in the major reservoirs & the soil moisture levels, plaguing locust attack on the Indian subcontinent and the recent proposals under the 'Aatmanirbhar Bharat' package pertinent towards the agrarian economy which are focused on boosting the agriculture and allied sector (by strengthening its infrastructure and logistics), demand for agrochemicals is expected to remain positive in FY21. Agriculture is the backbone of the Indian economy, as it employs nearly half of India's workforce and contributes around 15% to the nation's GDP. The total number of pests attacking major crops has increased significantly. During FY20, production has fallen by 14.4% due to shortage of imported raw materials as a result of outbreak of COVID. Exports of agrochemicals have grown by 5.9% during FY20 and major spike in exports is under insecticides category. The key growth drivers are India's capability in low-cost manufacturing, availability of technically trained manpower, seasonal domestic demand, overcapacity, better price realization globally, strong presence in generic pesticide manufacturing and good rainfall ahead of the rabi season.

Limited impact of COVID on operations of the company

NACL in the initial period of lockdown had scale down its operations at manufacturing facilities (safe shut down for a period of 1 week at Srikakulam unit and complete scale down for a period of 1 month at Ethakota unit). As the government deemed agriculture-related sectors including pesticides as essential and permitted the operations in limited way, the company resumed operations in all the facilities with necessary precautions from April 2020 at Srikakulam and from May 2020 at Ethakota. However, the company faced difficulties in sourcing manpower for its new facilities in first few months of lockdown, but as on date, the situation has stabilised. Since the business falls under essential category, there is limited impact on the regular operations of the company.

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 of the company are spread across the four quarters during the past years with sales being usually higher in Q2 due to healthy off-take by farmers during the Kharif and Rabi season. The demand for pesticides from Paddy crop (during the Rabi season) is highest in the domestic market extending from second half of third-quarter to the first half of fourth quarter.

Moderate operating cycle in FY20

NACL operates in an industry which is characterized by high inventory periods and elongated receivable period on account of the seasonality in sales. Furthermore, 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 101 days as on March 31, 2020 against 131 days as on March 31, 2019. The improvement is due to lower inventory days at 80 days as on March 31, 2020 against 98 days as on March 31, 2019. 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 also improved to 113 days as on March 31, 2020 against 116 days as on March 31, 2019.

Exposure to foreign exchange fluctuation risk

The company is engaged in export and import transactions which subjects it to the 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.2.30 crore in FY20 against a forex loss of Rs.4.2 crore in FY19.

Vulnerability to volatility in raw material prices

Raw material cost is the major cost element for the company which contributes on an average of 59.80% of the revenue in the last three years(FY18- FY20). 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 (26% in FY19 and 24% in FY20). In all, 90% of the total imports are from China, and the remaining are primarily imported from Japan and Isreal. The company entered into alliance with Krishi Rasayan for backward integration of its key products which would reduce the dependency on China further extent.

Significant capex proposed in medium term

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 25,000 MT per annum for manufacturing of technicals for export, domestic and for captive consumption. The company is envisaging project cost of nearly Rs.150-170 crore with debt-equity mix of 2:1. NACL is proposing to invest Rs.52.00 crore in the subsidiary during FY21 for the proposed capex and raise debt to the tune of Rs.100 crore in the subsidiary during FY22. Furthermore, NACL is planning to undertake another greenfield project for manufacturing agrochemicals with capacity of 38,000 MT per annum in Andhra Pradesh in its another new subsidiary – NACL Multichem Private Limited, however, the same is at very nascent stage. The above two major debt-funded capex program in medium term entails support in terms of equity infusion and also exposes it to project implementation risk. Further, any cost overrun in debt-funded capex may lead to deterioration of the company's financial risk profile and liquidity.

Liquidity: Adequate
NACL's liquidity position is adequate characterized by cash and bank balances to the tune of Rs.115.58 crore as on March 31, 2020. As on September 30, 2020, NACL holds a cash and bank balance to the tune of Rs.117.01 crore. The average utilization of working capital limits stood at 51.74% for last 12 months ending March 31, 2021. The existing unutilized bank limits provide adequate cushion during exigency. Its capex requirements of Rs.70 crore in FY21 are expected to be funded using debt of Rs.15 crore and remaining from available liquid funds. NACL has availed the first moratorium (March 2020 to May 2020) provided as a part of RBI Covid-19 regulatory package and was regularized subsequently in June 2020. Considering the cash accruals generated by the company during last year and expected generation of cash accruals during FY21, the term debt obligations to the extent of Rs.11.75 crore could be met comfortably.

Analytical approach: Consolidated. The list of subsidiaries is provided in Annexure 5.
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, Japan, USA, Australia, etc. NACL accessed primary capital market during 1993-94 in BSE and NSE on April 07, 2017. NACL has presence in the entire value chain of Agrochemicals and has 50+ products covering all the major crops across insecticides, herbicides, fungicides and plant growth regulators. The company has wide retail network with 12500 channel partners with over 42 stock points across India for faster deliveries.

Brief Financials (Rs. crore) (Consolidated)	FY19 (A)	FY20 (A)
Total operating income	888.39	1021.90
PBILDT	38.06	75.66
PAT	-6.95	16.74
Overall gearing (times)	0.85	0.83
Interest coverage (times)	1.12	2.59

A: Audited

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2026	29.56	CARE A-; Positive
Non-fund-based - ST-BG/LC	-	-	-	85.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	175.00	CARE A-; Positive
Fund-based - LT-Working Capital Demand loan	-	-	-	5.00	CARE A-; Positive
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	79.00	CARE A-; Positive

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-; Positive	-	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 A2+	-	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-; Positive	-	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-; Positive	-	1)CARE A-; Positive (10-Dec-20) 2)CARE A-; Stable (08-Oct-20)	-	-
5.	Fund-based - LT-Packing Credit in Foregin Currency	LT	79.00	CARE A-; Positive	-	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- NA

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 Foregin 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: List of Subsidiaries- NACL hold 100% stake in the below subsidiaries

1. L R Research Laboratories Pvt Ltd
2. Nagarjuna Agrichem (Australia) Pty Ltd
3. NACL Spec- Chem Limited(incorporated during FY21)
4. NACL Multichem Private Limited(incorporated during FY21)

Non complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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