Indogulf Cropsciences Ltd

February 15, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	94.09 (Reduced from 105.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	31.20 (Enhanced from 26.20)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**125.29 (Rs. One Hundred Twenty-Five Crore and Twenty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Indogulf Cropsciences Limited (ICL) takes into account long-standing experience of the promoters in the pesticide industry and established track record of operations**,** comfortable financial risk profile characterized by growing scale of operations in FY20 (refers to period from April 01 to March 31), moderate overall gearing and adequate liquidity position. The ratings further derive strength from its wide range of products and strong distribution network. However, these rating strengths are partially offset by working capital intensive operations, foreign currency fluctuation risks, regulatory risks, competitive and fragmented industry structure and high dependence on climatic conditions.

ICL has not sought for any moratorium on its payments due to its lenders for Term loan and Cash Credit Limits as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. However, ICL has sought moratorium on payments from its lender for LC facility as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. The moratorium has been approved by the bankers of ICL. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020

Positive factors

- Increase in total operating income by 20% or more on a sustained basis going forward without impacting its profitability margins.
- Improvement in the Overall Gearing ratio (Overall Gearing below 0.50x on a sustained basis in future).

Negative factors

- Decline in income by more than 20% or decline in PBILDT Margin by more than 150 bps from the current levels on a sustained basis.
- Deterioration in its Capital Structure (Overall Gearing of more than 2.00x in the projected period)

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations in agro-chemical industry: Mr. Om Prakash Aggarwal (Founder Chairman and Managing Director of the company) has more than two decades of experience in Agro-Chemical industry. The company started modest operations with fully automatic plant of zinc sulphate located in Nathupur, Haryana. The company under the guidance and supervision of Mr. Aggarwal established technical pesticide manufacturing unit in Haryana in 1996. Subsequently over the years, the company has set up a pan India marketing network, forayed into international market with exports and widened the product offering with new product registrations.

Comfortable financial risk profile:

During FY20, the total operating income of the company witnessed a growth of ~16% to reach Rs. 517.87 crore vis-à-vis Rs. 445.66 crore in FY19 primarily due to increase in both export and domestic sale. Export sales increased by 86% to reach Rs. 94.51 crore in FY20 vis-à-vis Rs. 50.80 crores in FY19 and domestic sales increased by 7.38% to reach Rs. 417.67 crore in FY20 vis-à-vis Rs. 388.96 crores in FY19 on the back of continued relationships with their existing clients and further addition of new customer base in both domestic as well as overseas markets and healthy demand of agricultural products. The PBILDT margin remains stable at 7.40% in FY20 as against 7.13% in FY19.

Total debt as on March 31, 2020 stood at Rs.129.94 crores (PY: 110.38 crores) including long term loan of Rs. 21.84 crores (Rs. 2.29 crores), Rs. 9.57 crores (PY: 5.08 crores) of loan from directors which does not have any fixed repayment schedule and interest rate of around 9% is charged on them, working capital borrowings of Rs. 58.18 crores (PY: 45.57 crores), lease liability for vehicles of Rs. 1.92 crores (PY: 2.19 crores) and LC acceptances of Rs. 38.30 crores (PY: 33.58 crores). Majority of debt is on account of working capital borrowing required to meet day to day operations of the company. The overall gearing (including LC acceptances) of the company though increased, remains moderate at 1.00x as on March 31, 2020 as against 0.80x as on Mach 31, 2019.

During H1FY21, the total operating income of the company decreased to Rs. 275 crore as compared to Rs. 317 crore during H1FY20, registering a decline of ~13% on account of lower export sales. PBILDT margins of the company increased to 8.80% H1FY21 as compared to 6.57% in H1FY20. As the product of the company is an essential product, Covid-19 pandemic had little effect on the business operations. On logistics front, company faced issues in getting container for export shipment and export orders decreased in H1FY21 due to lockdown imposed in the countries where exports are done and being seasonal nature of the business this resulted in lost of those orders in that period. Total debt as on September 30, 2020 stood at Rs.83.17 crores including long term loan of Rs. 19.36 crores, Rs. 14.10 crores of loan from directors which does not have any fixed repayment schedule and interest rate of around 9% is charged on them, working capital borrowings of Rs. 35.92 crores and LC acceptances of Rs 12.21.

<u>Ongoing Capex</u>

During FY20, Company had purchased a land and building of around Rs. 24 crores to use it as guest house in Ashok vihar, Delhi, it has raised a term loan of Rs. 18.00 crore for the same and rest was from internal accruals. Company has planned to use half of the property as guest house and half as its new office.

Company is also under process of establishing a new Multi-Specialty Unit at Badwasani, near Sonipat in Haryana, for manufacturing of formulations (Insecticides, Herbicides, fungicides etc.) and technical. Currently ICL's capacity utilization is around 80-90% and with increasing scale of operations, company has decided to set up a new manufacturing unit. The Capex is currently undergoing and in FY20 company has incurred capex of around Rs. 3.74 crores on the same which is part of WIP as on March 31 2020, Rs. 7.00 crores is expected to be completed in FY21 (out of which around Rs. 6 crores has been incurred in 9MFY21) and rest in FY22. The project is expected to be completed and operational in second-half of 2021. The capex is currently being funded from internal accruals of the company.

Wide product portfolio and distribution network:

The Company caters to a wide range of diversified pesticides (technical and formulations) in insecticides, Fungicides, Herbicides and Plant Growth Regulators (PGR). The company has product registration for around 476 formulations for domestic market, 30 technical manufacturing licenses and 167 for exports, besides other licenses in various stages of approval in the international market. The company has pan India presence through 23 branches which distributes the product through a network of more than 3000 distributors. The sales through distributors/dealers account for 60% of the total revenues. The balance 40% are supplied to the end-user directly like technical and formulation which is an intermediate product for these companies which include, Ravi organics Limited, Insecticides India Ltd etc. ICL also exports to countries like Ethiopia, Pakistan, Bangladesh, Egypt, Iran, Iraq, Jordan, Saudi Arabia, Syria, Lebanon, Nepal etc.

Adequate Liquidity:

The pesticide industry requires high working capital investment due to high Inventory and long credit period. Due to the seasonal demand for pesticides, the company is required to stack up variety of products as inventory in advance of the season resulting in high inventory holding period which is a common phenomenon across pesticide industry. The operating cycle of the stood at 127 days in FY20 (PY: 122 days) on account of high inventory holding period of 109 days (PY: 96 days) and high collection period of 82 days in FY20 (PY: 84 days). Due to the lock down imposed in March 2020 end, company was not able to liquidate its existing inventory during the initial period of lockdown in a timely manner which led to piling up of inventory and total inventory increased from Rs. 111.20 crore as on March 31, 2019 to Rs. 144.08 crore as on March 31, 2020 which led to increase in inventory days of the company. The company imports 20% of its raw material requirement out of which around 90% material requirement from China against DA (documents against acceptance) or LC with usance period between 90 days to 180 days. During the 12-month period ending November, 2020, average working capital utilization at maximum level stood moderate at 47.20%. Inventory of the company stood at Rs. 138.51 crores as on September 30, 2020 as against Rs. 144 crore as on March 31, 2020. Company has not taken any moratorium as per RBI guidelines for term loan or cc limit. Company have scheduled debt repayment of Rs. 5.98 crores in FY21. Out of total scheduled repayment for FY21, Rs. 2.94 has been repaid in H1FY21 and around ~Rs. 4.00 crores of unsecured loan has been repaid till December 31, 2020. ICL has not sought for any moratorium on its payments due to its lenders for Term loan and Cash Credit Limits as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. However, ICL has sought moratorium on payments from its lender for LC facility as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. The moratorium has been approved by the bankers of ICL. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020

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 which bodes well for the winter crop/Rabi season. With the government propagating the development of the agricultural sector and with the recent proposals under the 'Aatmanirbhar Bharat' package pertinent towards the upliftment of the agrarian economy focused on boosting agriculture and its allied sectors (by strengthening its infrastructure and logistics), the demand for agrochemicals for the rest of FY21 seems sanguine. Some of the ambitious steps taken by the Government of India to receive the role of agriculture in the growth of Indian economy such as increasing MSPs, eNAM portal, distribution of direct benefit transfer via PM Kisan Samman Nidhi has created a robust foundation to enhance farmer’s income and encourage wider adoption of high quality seeds. Going forward, with acreage and crop prices both improving, the sector is structurally well-placed also considering the fact that that this year’s Kharif harvest is slated to be a bumper crop and the farming community will be having good liquidity to spend money to safeguard their crop from pests and diseases in the Rabi season. Exports of agrochemicals are expected to remain steady during H2FY21. The pandemic has had limited impact on crop planting patterns and crops like wheat, rice and soya bean have shown strength. The domestic agrochemicals sector has a good opportunity to gain considerable market share in the global markets as customers are looking to diversify their supplies away from China. The industry is also trying to engage into backward integration for the manufacturing of technical grade pesticides as it wants to shift its reliance from China and become self-sufficient in the coming years.

Key Rating Weaknesses

Working capital intensive nature of the industry:

The agrochemical and pesticides industry is characterized by high inventory period on account of seasonality in sales. Due to seasonal demand, the company has to stock inventory before the beginning of harvest season thereby increasing the inventory holding cost. Since pesticides are the last link in the agricultural operation, after having invested in seeds, fertilizers, etc. the farmers have little surplus money for purchasing plant protection chemicals. Therefore, providing credit is necessary to stimulate demand. High competition and low off-take often necessitates longer credit period. Credit period extends till the harvest of crops. These factors result in high working capital requirement for companies like ICL. The operating cycle of the stood at 127 days in FY20 (PY: 122 days) on account of high inventory holding period of 109 days (PY: 96 days) and high collection period of 82 days in FY20 (PY: 84 days). During the 12-month period ending November, 2020, average working capital utilization at maximum level stood moderate at 47.20%.

Highly regulated and competitive nature of operations:

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. Traditionally, the Indian players have concentrated on marketing generic and off-patent products with little expenditure on R&D while MNCs have focused on developing patented molecules. 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, ICL has product registration for more than 410 formulations for domestic market, 30 technical manufacturing licenses and 75 for exports.
As per the news article in June 2020, there was a proposed ban on 27 pesticides which are likely to "involve risk to human beings and animals however, as it was a draft order, no pesticide mentioned in the order has been banned as of now. Further as per news article dated Jan 27, 2021, government has appointed an expert panel to review industry's objections to the proposed ban on 27 widely used pesticides which officials say are harmful to animals and humans. The committee, is likely to submit its report in three months based on which appropriate decision will be made. ICL deals in around 17-20 insecticides proposed to be banned by the government. Total sales from these products stood around Rs. 71.08 crores i.e. ~14% of TOI in FY20. However, contribution from these products has decreased to 8-10% in H1FY21 and company is working to reduce its exposure to these products to mitigate any risk arising from ban of these products.
As per the news articles, Europe has banned Mancozeb (a fungicide which is also one of the 27 pesticides which were proposed to banned by Ministry of Agriculture and Farmers Welfare) which can have a negative impact on agrochemical companies which are heavily dependent upon the product. In FY20, ICL earned total income of around Rs. 11.50 crores (around 2.5% TOI in FY21) from the product. As per the management, mancozeb is sold in both domestic (around 60% of mancozeb sales) and export market and since exposure to the product is not much, ban will not have any significant exposure towards operations of the company.

Exposure to agro-climatic conditions:
India has four major climatic regions which results in wide variations in rainfall and pattern of agriculture across the country. The prospect of agro chemical industry is dependent on the prevailing agro climatic condition in the particular region. To mitigate the risk associated with regional variations, ICL has diversified itself across various geographies with pan India presence.

Exposure to foreign exchange fluctuation risk:
The Company is exposed to the risk associated with volatility in the exchange rates as it exports to many countries and imports raw material majorly from china. The products of ICL are registered in 24 countries including Ethiopia, Saudi Arabia, Jordan, Lebanon, Pakistan, Bangladesh, Iran, Iraq being the major export countries during FY20. Around 80%-90% of total export sales are done on advance payment basis and technical and formulation makes around 50% each of total exports. Export sales increased by 86% to reach Rs. 94.51 crore in FY20 vis-à-vis Rs. 50.80 crores in FY19 on the back of continued relationships with their existing clients and further addition of new customer base. During FY20, exports contributed to around 18% of TOI of ICL which exposes company to inherent risk of foreign exchange fluctuation. However, ICL imported about 26% of its raw material requirement in FY20, which provided a natural hedge to some extent. Around 90% of its total import purchases are from China. Further, the company does not engage into hedging as it has a natural hedge mechanism to some extent. During FY20, the company booked a net forex gain of Rs. 1.82 crores (net forex gain of Rs. 0.83 crore in FY19). Nonetheless, any adverse foreign currency movement may have a bearing on the financial profile of the company.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
Financial Ratios – Non-Financial Sector
Rating Methodology for Pesticide Companies
Liquidity Analysis of Non-financial sector entities

About the Company
Indogulf Cropsciences Ltd (ICL) was originally incorporated in January 22, 1993 under the name and style "Jai Shree Rasayan Udyog Limited". The name of the company was subsequently changed to the present one in April 2015. The company is engaged in the manufacturing of technical grade, trading and formulation of pesticides, crop nutrients and plant growth

enhancers. The company has 3 manufacturing plants with two Technical plants located in Nathupur in Haryana and a formulation plant in Jammu. The installed capacity of technical grade plant stood at 2250 metric tons per annum (MTPA). For Formulation plant capacity is divided in Granules capacity of 225 TPD, Liquid formulation of 60-68 KLPD and Powder capacity of 22.5-24 TPD.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	445.66	517.87
PBILDT	31.78	38.33
PAT	15.16	20.50
Overall gearing (times)	0.80	1.00
Interest coverage (times)	5.20	7.82

A: Audited

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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	-	-	Nov 2024	18.09	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	76.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	31.20	CARE A3

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	18.09	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-20)	1)CARE BBB; Stable (09-Apr-19)	-	-
2.	Fund-based - LT-Cash Credit	LT	76.00	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-20)	1)CARE BBB; Stable (09-Apr-19)	-	-
3.	Non-fund-based - ST-BG/LC	ST	31.20	CARE A3	1)CARE A3 (03-Apr-20)	1)CARE A3 (09-Apr-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. CC	• Additional Interest of 18% p.a. on overdue/ delays/ defaults of any monies payable.
2. LC	• Commission of 1% per (month/quarter/annum) to be charged
B. Non-Financial Covenants	
1. CC	• Stock statement to be submitted (monthly / bi-monthly / quarterly) with ageing detail, on or before the 7th day of the month.
2. LC	• Import LC's may be issued at sight and/or usance tenor of upto 180 days

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-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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

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About CARE Ratings:
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Disclaimer

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In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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