India Pesticides Limited

March 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	45.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A-; Positive / CARE A2+ (Single A Minus; Outlook: Positive / A Two Plus)
Short Term Bank Facilities	15.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Long Term Bank Facilities	-	-	Withdrawn@
Total Bank Facilities	**60.00 (Rs. Sixty Crore Only)**		

Details of instruments/facilities in Annexure-1

Disclaimer: Mr. Adesh Kumar Gupta who is on the board of India Pesticides Ltd. is Independent Director of CARE. Independent/Non-executive directors of CARE are not part of CARE's rating committee and do not participate in the rating process.

@ CARE has withdrawn the rating assigned to the Bank facilities (Term Loan) of India Pesticides Ltd. with immediate effect, as the company has repaid the aforementioned term loan in full and there is no amount outstanding under the loan as on date.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of India Pesticides Limited (IPL) factors in the improvement in the financial risk profile of the company in FY20 (refers to period April 01 till March 31) and H1FY21 (April 01 till September 30) characterized by its growing scale of operations along with improvement in its capital structure and liquidity profile. Further, the ratings continue to derive strength from the long-standing experience of the promoters in the pesticides industry, its established track record of operations and strong competitive position of its key molecules in the national and international markets.

The ratings are, however, constrained by the customer concentration risk, exposure to fluctuations in raw material prices and foreign currency exchange rates, vulnerability of operations to agro climatic conditions, regulatory risk inherent to the industry and fragmented & competitive nature of the pesticide industry. CARE Ratings also takes into account that IPL has filed for draft red hearing prospectus (DRHP) with SEBI for an initial public offering wherein around Rs 100 crore will be fresh issue to be raised and around Rs 700 crore will be through offer of sale by promoters (secondary issue).

IPL has not sought any moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Rating Sensitivities

Positives factors: *Factors that could lead to positive rating action/upgrade*

- Sustained increase in the total operating income with the similar CAGR as reflected over the past 3 years without impacting its profitability margins.
- Ability of the company to diversify its product portfolio and its presence in different geographies.
- Improvement in the Overall Gearing ratio to below 0.20x on a sustained basis in future.

Negatives factors: *Factors that could lead to negative rating action/downgrade*

- Significant increase in the working capital Cycle on a sustained basis
- Decline in income by more than 20% and decline in PBILDT Margin of below 20% on a sustained basis.
- Deterioration in its Capital Structure with Overall Gearing of more than 0.60x on sustained basis in future
- Any ban on the sale of pesticides which contribute significantly to IPL’s TOI and may impact its financial profile adversely.

Detailed description of the key rating drivers

Key Rating Strengths

Promoter’s long-standing experience in the pesticides industry

IPL is promoted by Mr. Anand Swarup Agarwal, a first generation entrepreneur. Mr. Agarwal has four decades of experience in the pesticides industry and is supported by an experienced team of professionals. Mr. Agarwal was the chief editor of Hindi

Daily “Rashtriya Swarup” published by Swarup Publications (a group company) and a former director on the board of PNB Gilts Ltd. He has also served as non-executive director of Punjab National Bank. Mr Agarwal is assisted by his two sons Mr. Vishal Swarup Agarwal and Mr. Vishwas Swarup Agarwal, both of them with post graduate qualification in Business Administration.

Strong competitive position of few of its molecules in the national and international markets

IPL’s focus has been on developing few strategic products with high margin and limited competition. The company is majorly into manufacturing of technical. Technical Pesticides of the company constituted around 72% of its total sales in FY20 (62% of its total sales in FY19). The company has strong presence in the fungicides Captan Technical in India and in overseas market. Formulations constituted around 21% of its sales in FY20 (26% in FY19) with majority of sales in domestic market. The company is also manufacturing Pharma Intermediaries apart from manufacturing pesticides, which are further used in Dermatology industry and constituted around 8% of its sales in FY20 (11% in FY19). The key technical products contributing towards the operating income include Captan Technical and Cymoxanil Technical for fungicides and Thiocarbamate for herbicides. The growth from the recently developed herbicide has been significant in the past two years which has lifted the overall scale of operations and profitability of IPL. The products of IPL are registered in 25 countries including France, Turkey, Mexico, lran, Portugal, Australia, Japan, Sri Lanka, Serbia, UK, Spain, USA which is a step towards reducing company’s dependence over the domestic markets. The company’s focus has been to explore new technical grade pesticides for exports to increase the scale and profitability margin.

Consistent growth in scale of operations and healthy profitability

IPL has reported steady and stable growth in the operating income over the past few years on the back of healthy domestic demand and growing exports with significant market share for few technical products (including Captan Technical). It has also started producing herbicides from 2019 onwards which is contributing to the growth of the company.

The total operating income in FY20 grew by 42% and stood at Rs.489.61 crore as against Rs.345.72 crore in FY19. The increase in revenue is primarily due to increase in the production from the existing units due to capacity expansion, launch of new products and improved realizations.

The export sales of the company have been increasing since FY19 with the exports accounting around 62% of total operating income in FY20 as compared to 50% in FY19. The company has started producing herbicides from FY19 and has been major contributor to the revenue in FY20 and H1FY21 as these are used for export purpose only.

The company has maintained healthy PBILDT margin over the past years on the back of increased volumes with healthy margins and its leadership position in fungicides primarily Captan Technical. The PBILDT margin of the company has also increased from 20.35% in FY19 to 21.15% in FY20 on account of improved realizations.

During H1FY21(refers to period from April 01 to Sep 30, UA), the company reported an increase of 52% in total revenue on Y-o-Y basis backed by higher sales due to capacity expansion and better demand of herbicides. Further, the margins also expanded in H1FY21 and stood at 30.45% as compared to 18.64% in H1FY20.

Improvement in the Capital structure

The tangible net-worth of the company increased from Rs. 186.82 crore as on March 31, 2019 to Rs. 256.66 crore as on March 31, 2020 owing to accretion of profits into the reserves. The total debt of the company stood at Rs.28.16 crore as on March 31, 2020 which reduced significantly from Rs.61.08 crore as on March 31, 2019. The decrease in total debt is on account of reduction in the working capital borrowings on account of the significant cash accrual that has been accruing to IPL.

Overall gearing of the company has also reduced and as on Sep 30, 2020 it stood at 0.07x as compared to 0.11x as on March 31, 2020 and 0.33x as on March 31, 2019. Interest coverage ratio also improved and stood comfortable at 19.85x for FY20 (12.45x for FY19) and Total debt to Gross cash accruals also reduced and stood at 0.37 years for FY20 (1.27 years for FY19).

Also, on Feb 11, 2021, the company has filled Draft Red Hearing Prospectus with SEBI for Rs.800 crore of Initial Public Offering (IPO). The company is looking to raise Rs.100 crore via fresh issuance and Rs.700 crore through an Offer For Sale (OFS) by promoters which will further improve the capital structure.

Liquidity: Strong

The liquidity position of the company is strong as marked by its healthy cash accruals and comfortable working capital utilizations. The free cash and bank balance of the company stood at Rs.45.35 crore as on February 28, 2021 (Rs.6.71 crore as on March 31, 2020). It has sanctioned working capital limits of Rs. 45.00 crore which are largely utilized in the form of pre-shipment and post-shipment packing credit. The average monthly fund-based working capital utilization of the company for the last 12 months ending on December 2020 has been about 13.29%. It also has sanctioned non-fund based facilities of Rs. 15.00 crore with average utilization for the last 12 months ending on December 2020 stood at 90%. The company’s operating cycle has decreased from 142 days in FY19 to 118 days in FY20 primarily because of the improvement in collection period. The collection period improves as the company started to supply greater amount of herbicide wherein the credit period is 2-4 months as compared to 3-6 months in fungicide. The company has further not availed any moratorium from its lenders and is paying as per schedule.

Key Rating Weaknesses

Working capital intensive nature of business

The pesticide industry requires high working capital investment due to high Inventory and long credit period. The commoditised nature of the products and seasonality factor (high demand during crop sowing seasons) makes the operations of the group highly working capital intensive. This resulted in high working capital requirement by the group in first half of the year as compared to second half of the year.

Further, due to the seasonal demand for pesticides, the group 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. This increases the inventory holding cost. Further, 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 pesticides. Therefore, providing credit is necessary to stimulate demand. Thus, due to such intrinsic nature of business, the group's working capital requirement continues to remain high.

During FY20, the operating cycle of the company has reduced and stood at 118 days as compared to 142 days in FY19. The improvement in operating cycle is due to improvement in collection period which got reduced from 161 days to 136 days. The improvement in operating cycle is because the company has started supplying herbicide wherein the credit period is around 2-4 months as compared to 3-6 months in fungicide.

Usually, the company has high collection period as it provides a credit period of around 90-120 days to its domestic customers and around 120 – 180 days plus shipment period of around 15 days to its export customers (which are large in size). The trade receivables during the period ending March 31, 2020 stood at Rs.184.37 crore as compared to Rs.179.17 crore as on March 31, 2019. However, majority of the export debtors are backed by Letter of Credit (LC). Thus the collection period although stretched but is secured by LC. Also in the last 12-month period ending December, 2020, average working monthly working capital utilization remains comfortable and stood at 13.29%.

Customer concentration risk and exposure to fluctuations in raw material prices

During FY20, the company's top 4 customers accounted for ~36% of the net sales. Although, a substantial part of sales are dependent over a small number of customers along with institutional sales made to companies with long standing track record with prominent presence in the domestic and international market namely UPL Ltd (rated CARE AA+; Negative/ CARE A1+), Rallis India Ltd., Syngenta India Limited, Syngenta Asia Pacific PTE Ltd, Sharda Cropchem Ltd. and Sapec Agro. These customers of IPL are the large formulators, which sells the formulation across the globe. Further, the company is exposed to the fluctuations in the raw material prices and other derivatives of crude oil.

Exposure to foreign currency fluctuation risk

About 62% of the revenue of IPL in FY20 has been from exports which exposes the company to inherent risk of foreign exchange fluctuation. However, IPL also imported about 35% of its raw material requirement in FY20, which provided a natural hedge to some extent. The company is paying to the overseas suppliers from the foreign currency receivable account and matches the payment structure for their imports with the receipt of export sales. Apart from this company is currently not have any hedging mechanism as the total exports sales are higher than the raw materials imported. During FY20, the company booked a net forex gain of Rs. 9.54 crore (net forex gain of Rs. 4.61 crore in FY19).

Vulnerability to agro-climatic conditions, Highly regulated and competitive nature of operations

IPL's income and profitability depends highly on the agro-climatic conditions prevalent in the domestic and the global markets. 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 intense competition and focus on off-patent products leads to competitive pricing and lower margins in the domestic market. However, the increasing focus of the company on an export lead growth has resulted in insulating the company against margin pressures. Also, the competition in the technical segment is lower as compared to formulations given the technology intensive nature of operations and alchemic expertise needed to handle the highly concentrated chemicals.

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, IPL holds more than 100 registered products including both in technical grade as well as formulations.

Further, since IPL is into manufacturing of technical grade, the same requires compliance with stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms would have an adverse impact on the company's operations. However, as per management, IPL has equipped its units with in-house systems for treatment of solid, liquid and gaseous effluents and is in compliance with the regulatory guidelines.

Further, as per the draft order issued by Ministry of Agriculture and Farmers Welfare in June 2020, there was a proposed ban on 27 pesticides which are likely to "involve risk to human beings and animals" as per the Ministry. However, with addendum in June 2020 itself, the ministry allowed the manufacture and export of the pesticides which was earlier categorized under ban by obtaining certificate of registration for export of these banned products.

Out of the 27 insecticides which are proposed to be banned by the government, IPL deals in Captan Technical, Pendimethalin, Quinalphos & Ziram which together contribute around 28% of IPL's total operating income in FY20 and 22% in H1FY21. In case the government decides to ban these products, IPL may get adversely impacted as these products still contribute significantly to the overall revenue profile, however company has been taking steps to diversify its product portfolio to reduce its dependence on any single product. Further, the draft order was for proposed ban on these products for the sale in domestic markets while the major portion of revenue for the company from these molecules comes from the export market

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 farmers 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 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.

Analytical approach: Standalone

Applicable Criteria

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

About the Company

India Pesticides Limited (IPL) was established in 1984 and became public limited company in 1993. IPL is engaged in the manufacturing of various types of pesticides (technical & formulations) and pharmaceutical intermediates. Pesticides contribute about 92% of total sales, while pharmaceutical intermediates contribute about 8% to total sales of the company in FY20.

While the company markets a bouquet of formulations in the Indian market under various brands, IPL's thrust is on the manufacturing of technicals (primarily fungicide based technical). Fungicides (Folpet, Captan, Ferbam, Ziram, Thiram) are mainly used on fruits, vegetables, seeds treatment as well as paint industry. Insecticides (Lindane, Monocrotophos etc.) are mainly used in cotton, sugarcane and treatment of termites for households. Herbicides are mainly used on wheat, sugarcane etc. The insecticides are used mainly against insects and anthropods which feed on crops, roots etc., Fungicides are used against fungi, bacteria, virus etc, while the herbicides are used against weeds, or unwanted plants. The company have obtained registrations and license to manufacture from CIBRC and the Department of Agriculture Uttar Pradesh for 22 agro-chemical Technical and 124 Formulations for sale in India and 27 agro-chemical Technical and 34 Formulations for export. The products of India Pesticides Limited are well established in Indian & International markets. The company has won many awards including top exporter award from CHEMEXIL in the past. The company is a recognized export house. The R&D facilities of the company are registered with Department of Scientific & Industrial Research (DSIR) for both the plants. The company has registered significant growth in the past few years on the back of its ability to register its molecules in 25 countries along with healthy domestic demand.

As of September 30, 2020, the company's Dewa Road Facility had an aggregate installed capacity of 2,100 MT and 3,000 MT for agro-chemical Technicals and Formulations, respectively. Also, as of September 30, 2020, the Sandila Facility had an aggregate installed capacity of 17,400 MT and 3,500 MT for agro-chemical Technicals and Formulations, respectively.

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	345.72	489.61
PBILDT	70.36	103.55
PAT	43.92	70.78
Overall gearing (times)	0.37	0.16
Interest coverage (times)	12.62	19.85

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

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/ ST-Working Capital Demand loan	-	-	-	45.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A1
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

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/ ST-Working Capital Demand loan	LT/ST	45.00	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (02-Mar-20)	1)CARE A-; Stable / CARE A2+ (24-Dec-18)	1)CARE A-; Stable / CARE A2+ (27-Nov-17)
2.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A1	-	1)CARE A2+ (02-Mar-20)	1)CARE A2+ (24-Dec-18)	1)CARE A2+ (27-Nov-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A-; Positive (02-Mar-20)	1)CARE A-; Stable (24-Dec-18)	1)CARE A-; Stable (27-Nov-17)

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-Term Loan	Simple
2.	Fund-based - LT/ ST-Working Capital Demand 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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact No.: +91 22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ravleen Sethi
Group Head Contact no: +91-11 - 4533 3251
Group Head Email ID: ravleen.sethi@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**