Bhagiradha Chemicals and Industries Limited

June 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	59.04 (Enhanced from 53.12)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Short Term Bank Facilities	28.50	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	**87.54 (Rs. Eighty-Seven Crore and Fifty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Bhagiradha chemicals and Industries Limited (BCIL) is on account of improvement in financial and operational performance along with improved profitability margins during FY21 (refers to the period between April 01 to March 31) backed by resumption of operations to normalcy after the disruptions caused because of pollution control board and COVID lockdown in FY20 coupled with healthy demand for company's key products. The ratings continue to derive strength from experience 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, ongoing debt funded capex at subsidiary level, volatile raw material prices, business susceptible to vagaries of nature and company's operations being subject to strict regulatory compliance.

Positive Rating Sensitivities- Factors that could lead to positive rating action/Upgrade

- ✓ Notable improvement in scale by more than 30% and steady profitability margins not falling below 12%, on consistent basis.
- ✓ Ability of the company to diversify its product offering and reduce the revenue concentration to less than 25% per product.

Negative Rating Sensitivities- Factors that could lead to Negative rating action/Downgrade

- × Any unprecedented increase in the total debt levels leading to deterioration of overall gearing ratio to above 1x in future.
- × Significant cost or time overrun in the Bheema project; or considerable increase in exposure towards the project by BCIL more than the committed amount.
- × Sharp decline in revenue of profitability by more than 20%, going forward.

Detailed description of the key rating drivers

Key Rating Strength

Improved operational and financial performance in FY21 with healthy profitability margins:

After witnessing a subdued FY20 marred by production loss caused due to stop production order from AP pollution control board (APPCB) as well as COVID lockdown in March, 2020, the company's was able to operate at normal capacities in FY21 post compliance of the directives of APPCB. During FY21, the company reached a production levels of 2275 Mt in FY21 (CU of 69.73%) when compared to 1950 MT in FY20 (CU of 60.00%) in FY20. Further, the product 'fipronil' which was launched by the company in March 2020 has been attracting good demand from the industry. Accordingly, the total operating income (TOI) of the company has increased by 30% although remained lower than FY19 level of TOI. The PBILDT margin however, were significantly better in FY21 compared to past several years (i.e. FY18-FY20) attributable to fipronil which fetches better realisations along with favourable raw material prices during FY21.

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 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 personals 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. 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. During the year FY20, the R&D Dept. successfully completed the process development of Fipronil for which commercial production commenced in FY21.

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 (technical as well as formulations) and has a product portfolio of over 13 products with 10 more product process under development. The major products of BCIL include Chloropyriphos, Chloropyriphos Methyl, Triclopyr, Azoxystrobin, and Fipronil.

Comfortable leverage and coverage indicators:
The capital structure of the company marked by long term debt equity ratio and overall gearing remained satisfactory at 0.15x (PY: 0.09x) and 0.40x (0.36x) respectively as on March 31, 2021, backed by comfortable net-worth base with prolonged operations and healthy profits over the years. The coverage metrics, represented by interest coverage ratio and TDGCA also remained satisfactory at 5.76x and 1.79x respectively in FY21 backed by healthy accruals despite increase in debt levels with COVID loan and higher working capital outstanding.

Stable Industry Outlook
India is a net exporter of agrochemicals. It is the 4th largest manufacturer and the 13th largest exporter of agrochemicals globally. Its presence in the world agrochemical market has increased due to low-cost manufacturing, availability of technically trained manpower, seasonal domestic demand, overcapacity, better price realization globally, and strong presence in generic pesticide manufacturing. Exports grew by a CAGR of 10 per cent in the last decade.

Liquidity: Adequate
The liquidity position of the company is adequate with sufficient accruals to meet its repayment obligations. The company has a comfortable gearing headroom. Despite operating in a working capital intensive industry, the operating cycle of the company is comfortable and hence reliance of working capital limits remain at moderate level with an average utilization of about ~53% over the past twelve months ended April 2021. Liquidity is further supported by positive cash flows from operations and above unity current ratio as on March 31, 2021. Furthermore, the unutilized working capital limits provide cushion to support any short-term working capital gap.

Key Rating Weakness

Revenue concentration risk
Although BCIL has over twenty products and expertise of other processes, the revenue stream of the company is concentrated towards four products which contributed 84% of the gross sales in FY21 (83% in FY20). 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.

High exposure to government regulation
During FY20, APPCB had issued stop production order which led to temporary discontinuation of production activity at the company’s manufacturing unit. Furthermore, Government of India vide draft gazette notification dated May 18 2020 had placed 27 insecticides/ pesticides into a banned category and BCIL manufactures two products of the list. Although the final decision is under review, the revenue of the company remains suspectable such adverse government regulations. Moreover, BCIL operations are also exposed to international regulatory guidelines for all its export orders. However, company takes adequate measures and its manufacturing facility is accredited with all the necessary quality certifications like ISO 9001:2008 for quality system, ISO 14001:2004 for environmental management system and OHSAS 18001:2007 for occupational health and safety management etc.

Volatility in the raw material prices and foreign exchange risk
Raw material cost is the major cost element which contributed 63% to the cost of sales in FY21. The raw materials consist of various chemical compounds predominantly Di Ethyl Thiophosphoryl Chloride (DETC), Tri Chloro Acetyl Chloride (TCAC), Sodium Salt, etc. The prices of these inputs (chemicals compounds) are volatile and impact the profitability margins of the company given the limited pricing flexibility in view of intense competition in the industry along with cheap exports from China. BCIL however is trying to mitigate this risk by going for backward integration of some of such intermediates.

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

Ongoing debt funded capex- Bheema
BCIL had signed an MOU was 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. BCIL has invested about Rs 8 crore in the project during FY21 and it would be further investing about Rs 60 crore by raising capital through FPO/QIP. Also, BCIL will be extending corporate guarantee towards the debt availed by Bheema during FY23 for phase I. Although the project is at a very nascent stage, BCIL has significant exposure committed towards its subsidiary for this capex.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Financial ratios –Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Rating Methodology -Manufacturing Companies
Rating Methodology for Pesticide Companies

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 36.50 acres which commenced commercial production in 1995-96. The major products include Chloropyriphos –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 (Rs. crore)	FY20 (A)	FY21 (Published)
Total operating income	246.54	318.47
PBILDT	17.79	47.57
PAT	6.51	23.46
Overall gearing (times)	0.36	0.40
Interest coverage (times)	3.24	5.76

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	-	-	April, 2025	11.72	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	42.61	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	27.00	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	0.25	CARE A3+
Fund-based - ST-Standby Line of Credit	-	-	-	1.25	CARE A3+
Fund-based - LT-Working Capital Demand loan	-	-	-	4.71	CARE BBB; Stable

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	11.72	CARE BBB; Stable	-	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)	1)CARE BBB-; Stable (14-Sep-18)
2.	Fund-based - LT-Cash Credit	LT	42.61	CARE BBB; Stable	-	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)	1)CARE BBB-; Stable (14-Sep-18)
3.	Non-fund-based - ST-Letter of credit	ST	27.00	CARE A3+	-	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)	1)CARE A3 (14-Sep-18)
4.	Non-fund-based - ST-Bank Guarantees	ST	0.25	CARE A3+	-	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)	1)CARE A3 (14-Sep-18)
5.	Fund-based - ST-Standby Line of Credit	ST	1.25	CARE A3+	-	1)CARE A3 (11-Sep-20)	1)CARE A3 (CWN)	1)CARE A3 (14-Sep-18)

							(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	4.71	CARE BBB; Stable	-	1)CARE BBB-; Negative (11-Sep-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-Term Loan	Simple
3.	Fund-based - ST-Standby Line of Credit	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple
6.	Fund-based - LT-Working Capital Demand Loan	Simple

Note on 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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