

India Pesticides Limited

September 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	80.00	CARE A+; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	80.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of India Pesticides Limited (IPL) continue to derive strength from extensive experience of the promoters and management team in pesticides industry and strong competitive position of the company for some of its molecules in the domestic and international markets. The ratings also continue to take comfort from sustained growth in scale of operations, diversified product offerings in technical business and reputed customer base though concentrated. The ratings further take comfort from strong financial risk profile marked by low outstanding debt leading to strong debt coverage indicators and strong liquidity position. The ratings also take cognizance of the ongoing capex plans within the company and within wholly owned subsidiary to launch new products which shall be funded entirely through internal accruals. The ratings, however, continue to remain concentrated by customer concentration risk, exposure to fluctuation in raw material prices and foreign currency exchange rates as majority of the raw material is imported, though some part of the exposure is covered through natural hedge. The ratings also continue to remain constrained by the working capital intensive nature of business operations, vulnerability to agro-climatic conditions and inherent regulatory risk associated with the business. The ratings also take cognizance of moderation in profitability margins during FY23 (refers to the period April 01 to March 31) & Q1FY24 (refers to the period April 01 to June 30) though the same continued to remain healthy.

Positive factors

- Increase in scale of operations marked by total operating income increasing to Rs.1000 crore or above while maintaining PBILDT margin at 20% and above on a sustained basis.
- Diversification in the overall product portfolio resulting into lower concentration on top 2 products.
- Maintaining operating cycle at less than 120 days and optimising working capital utilization.

Negative factors

- Decline in scale of operations by more than 20% or decline in the PBILDT margin below 14% on a sustained basis.
- Elongation in operating cycle beyond 180 days and weakening of liquidity position.
- Any debt funded capex/acquisition adversely impacting capital structure with overall gearing of more than 0.50x.

Analytical approach: Standalone, factoring support provided to group companies in terms of investment, loans & advances.

Outlook: Stable

The Stable outlook reflects CARE's opinion that the company will continue to benefit from extensive experience of promoters, diversified product portfolio in technical business and long track record of operations along with reputed clientele.

Detailed description of the key rating drivers:

Key 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 and Indian Overseas 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. The company has long standing association with the various stakeholders viz. customers, suppliers, etc. Most of the sales of the company are institutional sales made to companies with prominent presence in the domestic and international market.

Diversified Product Portfolio

IPL has around 28-30 molecules (technical) registered in India. The domestic product portfolio is dominated by a few off patent old generic molecules leading to moderate sales concentration risk. Company is continuously investing in its research and

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

development capabilities to develop new molecules which are expected to reduce its dependence on old molecules. IPL has also registered its products (Captan and Folpet) for exports in across 25 countries France, Belgium, Finland, Hungary, Dubai, UAE, Turkey, Mexico, Portugal, Australia, Japan, Spain and USA which is a step towards reducing company's dependence over the domestic markets. Company launched 14 products in FY23, which include 10 formulations, 3 technicals and 1 intermediate. Company is also engaged in manufacturing of formulations (99 formulations available in the domestic market and 34 formulations exported) and has a distribution network consisting of 5112 dealers with 20 sales depots and sales force in place for marketing the same in various parts of the country viz. Gujarat, Rajasthan, Maharashtra, Andhra Pradesh, Madhya Pradesh, Punjab, Haryana, Uttar Pradesh, etc.

Sustained growth in scale of operations albeit moderation in profitability during FY23 and Q1FY24

The total operating income during FY23 grew by ~24% and stood at Rs.892.55 crore as against Rs.721.71 crore in FY22 which is further expected to increase slightly in the current fiscal on the back of continuous launch of new products. The increase in revenue in FY23 was primarily due to growth in export business which is led by growth in technical business. The company has maintained healthy PBILDT margin (> 20%) over the past many years on the back of increased volumes with healthy margins and its leadership position in fungicides namely Captan Technical. PBILDT margin of the company has though moderated to 22.99% in FY23 from 30.40% in FY22 on account of sudden decline in raw material prices compounded with high inventory cost due to which company couldn't fully pass on the increased cost to the customer. Further in Q1FY24, PBILDT margin of the company moderated to 12.85% because of subdued volumes, high cost inventories and steep price drops due to oversupply of raw material from China.

Strong financial risk profile

The financial risk profile of the company continues to be strong characterized by overall gearing of 0.01x as on March 31, 2023, as against 0.02x as on March 31, 2022. Interest Coverage Ratio of the company remains healthy at 31.82x for FY23. TD/PBILDT and TD/GCA improved to 0.03x & 0.03x respectively in FY23 from 0.07x & 0.09x respectively in FY22.

Key weaknesses

Working capital intensive nature of business

During FY23, the operating cycle of the company continues to remain elongated at 150 days as compared to 138 days in FY22. The elongation in operating cycle was largely due to increase in the inventory period which increased from 81 days in FY22 to 99 days in FY23. The inventory requirement for pesticides industry generally remains high due to commoditised nature of products and seasonality factor (high demand during crop sowing seasons). Further, company has to allow higher credit period for newly launched products to generate the demand for those products initially.

Customer concentration risk and exposure to fluctuations in raw material prices

During FY23, the company reported total net sales of Rs.881.85 crore, out of which ~47% was made to top 5 customers. The percentage of sales to top 5 customers has remained consistent over the last few years, thus exposing the company to customer concentration risk. However, a substantial part of sales is dependent over a small number of customers. The company remains exposed to the volatility in raw material prices. The major raw materials used in making captan technical are imported from China and Taiwan. Any unprecedented increase in raw material prices may result in lower operating margins going forward. Furthermore, new product launches by peers can affect demand, thereby weakening top line and cash accrual.

Exposure to foreign currency fluctuation risk

The products of IPL are registered in over 25 countries including Singapore, France, Switzerland, Israel, Belgium, Australia, Portugal, Japan, Italy being the major export countries during FY23. Company generated around 54% of the revenue from exports in FY23 which exposes company to inherent risk of foreign exchange fluctuation. However, IPL imports some portion of its raw material requirement, which provided a natural hedge to some extent. The company majorly imports Tetra Hydro Phthalic Anhydride (THPA), Ammonium Thiocyanate, Di N Propylamine and Cyano Acetyl Ethyl Urea and the major countries are Taiwan and China. Though company is having hedging policy in place, but the total exports sales has been higher than the raw materials imported and so far in past few years the rupee has been on declining trend. During FY23, the company booked a net forex gain of Rs.7.61 crore (net forex gain of Rs.5.57 crore in FY22).

Liquidity: Strong

The liquidity position of the company is strong supported by free cash and bank balance of ~Rs.11 crore as on March 31, 2023. Apart from this, company held investment in mutual funds and fixed deposits amounting to ~Rs.30 crore. The company has sanctioned working capital limits of Rs.80.00 crore and the average monthly fund-based working capital utilization for the last 12 months ending June 2023 stood about 13%. Company has negligible repayment obligation going forward as against the expected healthy GCA of ~Rs.123 crore. The company has planned capex of ~Rs.50 crore within the company and capex of Rs.60 crore with in the wholly owned subsidiary in FY24 which will be completely funded through internal accruals.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and actions by the company
Environmental	<ol style="list-style-type: none"> 1. Company made efforts to preserve biodiversity wherein it made efforts to promote afforestation by implementing the Miyawaki technique to enrich the existing greenbelt around its manufacturing sites. The food forestation project transformed idle lands at five locations into productive areas for cultivating fruits and vegetables. 2. Company has been focusing on to minimize environmental waste with the implantation of advanced systems such as Effluent Treatment Plant (ETP), Multiple Effect Evaporator (MEE), Reverse Osmosis (RO) and Spray Driers resulting in zero liquid discharge at all facilities. 3. Company has been focusing on adopting energy efficient practices by relying solely on biomass for heat and steam generation and expanding solar power utilization.
Social	<ol style="list-style-type: none"> 1. Company has been actively engaged in charitable initiatives which includes providing essential medicines to underprivileged patients, enhancing equipment facilities in blood banks and supplying nutrition to impoverished children in government hospitals. 2. Company is also engaged in offering financial aid to patients undergoing critical illness treatment, supporting aspiring sport individuals by sponsoring their professional training, upgrading educational facilities and expansion of computer centres to promote digital literacy.
Governance	<ol style="list-style-type: none"> 1. The company has put in place a sound and well-structured corporate governance framework to operate more efficiently and to ensure that the best interests of its stakeholders are always upheld. Its Board and its committees together with a strong executive leadership helps it to maintain the highest standards of transparency, accountability, awareness in its operations. The Board of Directors have established a risk management committee to develop a comprehensive risk management strategy.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Fertilizers & Agrochemicals	Pesticides & Agrochemicals

India Pesticides Limited (IPL) was established in 1984 which became public limited company in 1993 and got listed on stock exchanges in July 2021. IPL is engaged in the manufacturing of various types of pesticides (technical & formulations) and pharmaceutical intermediates. Pesticides contributed about 96% of total sales, while pharmaceutical intermediates contributed about 4% to total sales of the company in FY23. While the company markets a bouquet of formulations in the Indian market under various brands, IPL's thrust is on the manufacturing of technical (primarily fungicide based technical). The products of IPL 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). As of June 30, 2023, the aggregate installed capacity of company's manufacturing facilities for agro-chemical Technical was 24,200 MT and Formulations was 6,500 MT.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	721.71	892.55	201.44
PBILDT	219.42	205.17	26.32
PAT	158.38	144.48	15.89
Overall gearing (times)	0.02	0.01	NA
Interest coverage (times)	33.73	31.82	22.12

A: Audited, UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information:**Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:**

Name of Director	Designation of Director
Adesh Kumar Gupta	Non-Executive - Independent Director

Mr. Adesh Kumar Gupta who is Director on the Board of India Pesticides Limited is also the Independent Director of CARE Ratings Ltd. Independent/Non-executive Directors of CARE Ratings Ltd. are not a part of CARE's Ratings Ltd.'s Committee and do not participate in the rating process.

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: Annexure-4

Lender details: Annexure-5

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/ ST-Working Capital Demand loan		-	-	-	80.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	80.00	CARE A1+

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 2023-2024	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
1	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	80.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (06-Oct-22)	1)CARE A+; Stable / CARE A1+ (02-Dec-21)	1)CARE A; Stable / CARE A1 (16-Mar-21)
2	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1+	-	1)CARE A1+ (06-Oct-22)	1)CARE A1+ (02-Dec-21)	1)CARE A1 (16-Mar-21)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (16-Mar-21)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Demand loan	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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.

Contact us

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About us:

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