# Punjab Chemicals and Crop Protection Limited

September 6, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 35.02<br>(Reduced from 49.54) | CARE BBB+; Stable | Reaffirmed |
| Long-term / Short-term bank facilities | 20.00 | CARE BBB+; Stable / CARE A2 | Reaffirmed |
| Short-term bank facilities | 30.00 | CARE A2 | Reaffirmed |
| Short-term bank facilities | - | - | Withdrawn |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The reaffirmation of the ratings on the bank facilities of Punjab Chemicals and Crop Protection Limited (PCCPL) considers PCCPL's healthy financial risk profile, extensive experience of the promoters and medium-term revenue visibility supported by offtake arrangements with its customers.

The rating strengths, however, are offset by revenue and customer concentration risk, exposure to risks intrinsic in agrochemical sector, susceptibility of margins to volatility in raw material prices and foreign exchange fluctuations.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Significant increase in revenue and PBILDT resulting in net cash accruals over ₹100 crore on sustained basis
- Improvement in capital structure marked by TOL/TNW below unity on sustained basis

### Negative factors

- Decline in turnover coupled with lower-than-envisaged PBILDT margins, resulting in dip in net cash accruals below ₹75 crore on sustained basis
- Higher-than-envisaged debt-funded capex resulting in weakening of financial risk profile and liquidity

## Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered the business and financial risk profiles of PCCPL in consolidation with SD AgChem (Europe) NV (SDAC), Belgium, the wholly owned overseas subsidiary company. SDAC, is the marketing arm of the group in Europe with various registrations for immediate supply of the company's products in the region.

## Outlook: Stable

Stable outlook reflects the company's ability to maintain its healthy financial risk profile amidst steady cash flow generation and absence of large debt-funded capital expenditure (capex).

## Detailed description of the key rating drivers:

### Key rating strengths

**Healthy financial risk profile despite headwinds in FY23**

PCCPL's total operating income (TOI) improved by around 7% during FY23 (refers to period April 1 to March 31) impacted by high channel inventory and pricing- pressure in key overseas markets coupled with erratic weather conditions in the domestic market. PBILDT margin declined by 300 bps as a result of higher raw material and energy costs. Nevertheless, PCCPL's financial risk profile remained healthy. The capital structure continues to remain comfortable with tangible net worth of ₹279.88 crore as on March 31, 2023 (₹224.74 crore as on March 31, 2022) and overall gearing of 0.34x as on March 31, 2023 (0.42x as on March 31, 2022). The capital structure is likely to remain comfortable in the near term as no large debt-funded capex is envisaged.

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

Interest coverage ratio, though declined, remained satisfactory at 6.69x in FY23 (11.35x in FY22). Total debt to gross cash accruals remained satisfactory at 1.15x in FY23 (0.92x in FY22).

During Q1FY24 (Unaudited; refers to period April 1 to June 30), PCCPL achieved TOI of ₹281.62 crore (₹272.27 crore in Q1FY23) and PAT of ₹21.74 crore (₹20.61 crore in Q1FY23). CARE Ratings expects the performance of the company to improve and financial risk profile to remain healthy over the medium term.

**Experienced promoters and professional management**

The company has a track record of more than four decades in manufacturing of crop protection products. Shalil Shroff (Managing Director), the second-generation promoter has an experience of over three decades in the chemical industry. Mukesh Patel (Chairman) is experienced in finance and corporate management for more than four decades. The promoter is supported by a qualified team of professionals, Vinod Kumar Gupta (Chief Executive Officer, CEO), a Chemical Engineer, has more than 24 years' experience in operations management in large petrochemicals and oleochemicals sector. Ashish Nayak, (CFO), has over 15 years of experience in the chemical industry. CARE Ratings believes that the company will continue to benefit from the experienced promoters and professional management.

**Medium-term revenue visibility**

PCCPL has arrangements with multinational companies under contract research and manufacturing services (CRAMS) business model which is based on cost-plus pricing mechanism. The contract has a tenor of five years and most of these agreements get auto renewed, providing medium-term revenue visibility for the company. Also, product registration challenges like long tenor, high cost etc, at customers' end, increases probability of contract renewal by the clients to a large extent. PCCPL has a product pipeline across segments at different stages of development. Timely commercialization of these products may further improve PCCPL's business risk profile.

**Key rating weaknesses**

**Revenue and client concentration risk**

Top five products driving revenue of PCCPL contributed around 60% (PY: 40%) of the total sales in FY23. Furthermore, the top five customers contributed nearly 65% to total operating income in FY23 (72% in FY22). In addition, major sales to single foreign market, Europe also exposes PCCPL's business to geographical concentration risk. Notwithstanding expansion in the existing product line, addition of new molecules and new clientele is expected to dilute the concentration risk gradually in the coming years.

**Exposure to risks intrinsic in agrochemical sector**

The crop-protection sector remains susceptible to various environmental rules and regulations in different countries. The sector is highly dependent on farm income and monsoon levels. Various licenses, environmental clearances and registrations are mandatory for the setting up of a manufacturing facility and selling its products which involves high-cost outflow and long tenor. Hence, infringement of any of the laws and any significant adverse change in the regulatory policies or distribution of monsoon may have significant impact on PCCPL's revenues.

**Susceptibility to volatility in raw material prices and forex fluctuation risk**

Around 60-65% of the operating cost of the company consists of raw material expenses. Rapid changes in the base chemicals market with significant adjustments to the global demand and supply chain creates a volatile environment which exposes consumers like PCCPL to the volatility in raw material prices. Around 22-25% of its major raw materials requirements are met through imports, hence is exposed to foreign exchange fluctuation risk as well. The forex risk is partly covered by natural hedge, PCCPL being net exporter (around 58% of sales). The major export destinations are Europe, Japan, Israel, USA and Latin America.

**Liquidity: Adequate**

The liquidity profile of PCCPL is characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The cash flows from operations in FY24 are expected to adequately cover the external repayment obligations of around ₹8 crore. The average of maximum monthly utilisation remained at 94% for the past 12 months through June 30, 2023. However, the average utilisation stands at 67% for the same period. Also, the company enjoys working capital demand loan which is minimally utilised. The cash credit limit has been enhanced during Q1FY24 to fund the increasing working capital requirements.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

## Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pesticide
Policy on Withdrawal of Ratings

## About the company and industry

### Industry classification

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

Incorporated in November 1975, PCCPL was promoted by S.D. Shroff in association with Excel Industries Ltd and Punjab State Industrial Development Corporation (PSIDC) in the name of Punjab United Pesticides & Chemicals Limited (PUPCL), a public limited company. Later, in March 2006, the name of the company was changed to PCCPL with all its divisions – agrochemicals, pharmaceuticals, intermediates, chemicals & international trading, under one umbrella. The company specialises in agrochemicals which are key revenue driver for the company (70-80%). It is into CRAMS largely for agrochemicals. CRAMS accounted approximately 60-70% of the revenue over the years.

| Brief Financials (₹ crore) - Consolidated | March 31, 2022 (A) | March 31, 2023 (A) | Q1FY24 (UA) |
|---|---|---|---|
| Total operating income | **933.46** | **1003.55** | 281.62 |
| PBILDT | 140.02 | 120.54 | 38.08 |
| PAT | 83.46 | 61.10 | 21.74 |
| Overall gearing (times) | 0.42 | 0.34 | NA |
| Interest coverage (times) | 11.35 | 6.69 | 10.67 |

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

| Brief Financials (₹ crore) - Standalone | March 31, 2022 (A) | March 31, 2023 (A) | Q1FY24 (UA) |
|---|---|---|---|
| Total operating income | 930.57 | 1,001.28 | 280.59 |
| PBILDT | 138.69 | 119.74 | 37.72 |
| PAT | 80.82 | 60.94 | 21.56 |
| Overall gearing (times) | 0.39 | 0.32 | NA |
| Interest coverage (times) | 11.57 | 6.89 | 10.75 |

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:** 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**: Annexure-4

**Lender details**: Annexure-5

**List of Subsidiaries and Associates:** Annexure 6

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | | - | - | December, 2027 | 35.02 | CARE BBB+; Stable |
| LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | | - | - | - | 20.00 | CARE BBB+; Stable / CARE A2 |
| Non-fund-based - ST-Letter of credit | | - | - | - | 30.00 | CARE A2 |
| Non-fund-based - ST-Loan Equivalent Risk | | - | - | - | 0.00 | Withdrawn |

**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-Term Loan | LT | 35.02 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (30-Aug-22) | 1)CARE BBB+; Stable (23-Nov-21)<br><br>2)CARE BBB; Stable | 1)CARE BBB-; Stable (22-Jun-20)<br><br>2)CARE BBB-; Stable |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | (06-Apr-21) | (03-Jun-20) |
| 2 | LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | LT/ST* | 20.00 | CARE BBB+; Stable / CARE A2 | - | 1)CARE BBB+; Stable / CARE A2 (30-Aug-22) | 1)CARE BBB+; Stable / CARE A2 (23-Nov-21)<br><br>2)CARE BBB; Stable / CARE A3+ (06-Apr-21) | 1)CARE BBB-; Stable / CARE A3 (22-Jun-20)<br><br>2)CARE BBB-; Stable / CARE A3 (03-Jun-20) |
| 3 | Non-fund-based - ST-Loan Equivalent Risk | ST | - | - | - | 1)CARE A2 (30-Aug-22) | 1)CARE A2 (23-Nov-21)<br><br>2)CARE A3+ (06-Apr-21) | 1)CARE A3 (22-Jun-20)<br><br>2)CARE A3 (03-Jun-20) |
| 4 | Non-fund-based - ST-Letter of credit | ST | 30.00 | CARE A2 | - | 1)CARE A2 (30-Aug-22) | 1)CARE A2 (23-Nov-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-Term Loan | Simple |
| 2 | LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | Simple |
| 3 | Non-fund-based - ST-Letter of credit | Simple |
| 4 | Non-fund-based - ST-Loan Equivalent Risk | Simple |

**Annexure-5: Lender details**

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|---|
| To view the lender-wise details of bank facilities please click here |

**Annexure – 6: List of Subsidiaries and Associates**

| Subsidiary | Country of Incorporation | % of shareholding |
|---|---|---|
| SD AgChem (Europe) NV | Belgium | 100% |

**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.

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**About us:**
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