

Bhagiradha Chemicals and Industries Limited

November 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A2 and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB+; Stable/CARE A2' assigned to the bank facilities of Bhagiradha Chemicals and Industries Limited (BCIL) with immediate effect. The above action has been taken at the request of Bhagiradha Chemicals and Industries Limited and 'No Objection Certificates' received from the banks that have extended the facilities rated by CARE.

The ratings continue to derive strength from experienced promoters with long track record of operations, improvement in financial performance in FY23 (FY refers to the period April 01 to March 31), healthy profitability margins in FY23, reputed client base, established Research & Development facilities and product portfolio, comfortable capital structure, healthy debt coverage indicators and adequate liquidity position.

The rating strengths are however partially offset by moderation in financial performance during H1FY24, uncertainty on ban of one of its products Chlorpyrifos which contributes significant share in overall revenue, ongoing debt funded capex at subsidiary level, volatility in raw material prices, revenue concentration risk, elongated operating cycle, business susceptible to vagaries of nature and company's operations being subject to strict regulatory compliance.

Analytical approach: Consolidated

CARE has analysed Bhagiradha Chemicals & Industries Limited (BCIL's) credit profile by considering the consolidated financial statements (comprising BCIL and its subsidiary; Bheema Fine Chemicals Private Limited (Bheema)) owing to financial and operational linkages between the parent and its subsidiary. Bheema, currently is under project stage and the products proposed to be manufactured shall be mostly similar to those of products manufactured by BCIL. Both the companies are run by common management.

The consolidated financial statements include BCIL (the holding company) and its following Subsidiary:

- Bheema Fine Chemicals Private Limited: 100% subsidiary

Outlook: Not applicable

Detailed description of the key rating drivers:

Key strengths

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 persons 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. Given the huge competition from the domestic and large MNC's, R&D activity plays an important role for the players participating in the pesticide industry. On average BCIL spent about Rs 1.50 crore for R&D for the past three years. 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 and developed new chemicals. The company tries to optimize its existing technologies and scale up operations aided by the seamless efforts of the R&D team, which has resulted in development of several

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

new products and enabled the company to hold process patents for one of their major products Azoxystrobin. During the past three years, BCIL commercialized three insecticides, namely, Fipronil, Pymetrozine and Dinotefuran.

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 (majorly technical with very small portion of formulations) and has a product portfolio of over 13 products with 10 more products under development. The major products of BCIL include Chlorpyrifos, Chlorpyrifos Methyl, Triclopyr, Azoxystrobin, and Fipronil.

Improved financial performance and healthy profitability margins in FY23: In FY23, the total income of the company improved by about 15% led by constant demand for products supplied by BCIL and contracts BCIL had with its customers which enabled them to maintain the profitability despite increase in input prices in second half of FY23. Profitability in FY23 improved marginally and remained healthy with the operating margin at 15.67% (FY22: 14.79%). Interest and depreciation expenses were like that of FY22 which resulted in improvement in PAT margin by 88 bps to 8.21%.

Healthy capital structure and debt coverage indicators: As of March 31, 2023, debt profile of BCIL consists of term loan availed for setting up new product line, GECL loans and working capital borrowings. Capital structure marked by overall gearing remained comfortable at 0.43x as of March 31, 2023 (PYE: 0.40x) on account of equity infusion in the form of rights issue for amount Rs. 83 crores and accredited healthy accruals of the company in FY23 leading to improved net worth. Net worth of the company improved to Rs. 312.29 crores as on March 31, 2023, against Rs. 189.64 crores as on March 31, 2022. Other debt coverage indicators also are satisfactory with Interest coverage ratio and TDGCA of the company improved and remained healthy at 15.49x (PY: 7.51x) and 0.80x (PY: 1.58x) respectively.

Key weaknesses

Subdued financial performance in H1FY24: In H1FY24, Total operating income (TOI) declined by about 12.32% to Rs.222.93 crore (H1FY23: Rs.254.25 crore). The company's revenue was adversely impacted due to increase in input prices coupled with the slowdown in demand from the global market and domestic market sustained for almost major part of H1FY24 which resulted in lower sales realizations. Further, PBILDT and PAT margins of the company significantly declined by 568 bps and 518 bps i.e., 9.72% and 3.81% respectively.

Proposed ban On Chlorpyrifos: In May 2020, Government of India announced that it has decided to impose ban on 27 widely used pesticides out of which one product named Chlorpyrifos is manufactured and sold by BCIL which contributes significant share to overall revenue. However, the ban is yet to be imposed and BCIL continues to sell the product and derive benefits from the same. Further, BCIL also introduced other products into the market which have seen wide acceptance as a result of which the risk is partially mitigated. However, given the contribution of Chlorpyrifos to overall revenue, the impact is likely to be seen if the proposed ban is imposed. As per Insecticides (Prohibition) order 2023, Chlorpyrifos was classified under restricted use (i.e., omitting crops of Ber, Citrus and Tobacco from approved usage) Vide S.O. 701(E), dated 15.02.2023.

Volatility in the raw material prices and foreign exchange risk: Raw material cost is the major cost element for the company with contribution of ~74% to the cost of sales in FY23 (compared to ~64% in FY22). The major raw materials consist of several chemical compounds predominantly Tri Chloro Acetyl Chloride (TCAC), Di Ethyl Thiophosphoryl Chloride (DETC), Tri Methyl Ortho Formate, O Chloro Benzyl Cyanamide, Pyrrolidine, Sodium Salt, etc. The prices of the major inputs (chemicals compounds) are volatile in nature which may impact the profitability of the company given the limited pricing flexibility in view of huge competition in the industry, particularly cheap exports from China. However, the company has successfully finished its backward integration capex of azoxystrobin which reduces the volatility to some extent.

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. Further, given the demand dependent on monsoon, the industry (in India) is characterized by seasonality. To address the seasonality issue, however, the company has diversified and increased its sales into the export markets and export sales contributed 10% of TOI during FY23.

High exposure to government regulations: BCIL has high exposure towards government regulations both by Indian government and customer country. Government of India vide draft gazette notification dated May 18, 2020 has placed 27 insecticides/ pesticides into a banned category, post the period of 45 days from date of publication of notification. The notification is however a draft version and is subjected to revision in the final order. BCIL's product portfolio consists of two pesticides i.e., chlorpyrifos and sulfosulfuron which are a part of the banned pesticides as per the draft gazette. Furthermore, chlorpyrifos alone contributed significant share of BCILs revenue. Further, BCIL has already developed two substitute products to the banned product which are under trial runs and can be replaced/launched depending on need basis.

Ongoing debt funded capex at subsidiary level: BCIL had signed an MOU with 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. First Phase of the project was initially expected to be completed by December 2022 with cost of Rs. 120 crores. However, due to delays in approvals, there is an escalation in project cost by Rs.30 crore i.e., the project cost now envisaged is Rs.150 crore and the same is expected to be met thru internal accruals of about Rs.105 crore and balance through term debt. BCIL shall be extending corporate guarantee towards the debt proposed to be availed by Bheema in FY24 for phase I. The project is expected to be scheduled to commence operations from Q4FY24 onwards.

Elongated operating cycle: Company procures the raw material majorly from indigenous market at 70%-75% of total purchases and imports raw materials from China which contributes around 20%-25% of total purchases. Payment terms with suppliers range from 60 to 90 days. BCIL provides credit period of 90 to 120 days to its customers and holds inventory for a period of 90 days. Operating cycle of the company elongated to 97 days in FY23 (PY: 70 days) on account of increase in average collection period to 81 days (PY: 65 days). On an absolute level, total receivables increased to Rs. 128.77 crores (PYE: 96.59 crores) which is majorly on account of debtors pending for realization towards the sales reported in last quarter of FY23.

However, in H1FY24, owing to a subdued performance in the agro chemicals sector, the company experienced an extension in its operating cycle to 125 days due to by delay in receivables, leading to an extended collection period of 101 days.

Liquidity: Adequate

The liquidity position of the company is adequate marked by accruals of Rs. 62.49 crore as on March 31, 2023 with a repayment obligation of Rs. 4.55 crore. Liquidity is supported by positive cash flows from operations and above unity current ratio 2.26x as on March 31, 2023. Internal accruals of the company are sufficient to meet the repayment of term loan projected in FY24 with accredited profits. Further, Unutilised working capital limits and partial amount received from convertible share warrants Rs. 85.30 crores provide sufficient cushion to meet working capital requirements and capex needs.

Environment, social, and governance (ESG) risks:

Environment: BCIL conducts its manufacturing operations in an environmentally responsible manner. About 60% of BCIL's plant area is covered under green belt. The company continues to upgrade its infrastructure to reduce emissions and has installed Online Continuous Emission Monitoring System to record real time data and is following the 'Miyawaki Plantation' Methodology as per the directions of the Pollution Control Board.

Social: The Company's social commitments span in the areas of education, health and community development. BCIL initiates different types of training and development programmes to foster skill development and create a future ready workforce.

Governance: BCIL regularly reviews Company policies, create an environment that encourages ethical behaviour, and promptly inform staff on important policy changes.

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	Chemicals & Petrochemicals	Commodity Chemicals

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 71.68 acres which commenced commercial production in 1995-96. The major products include Chlorpyrifos –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.

BCIL – Consolidated:

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	435.81	502.67	222.93
PBILDT	68.46	78.42	21.66
PAT	35.90	46.41	8.50
Overall gearing (times)	0.42	0.16	NA
Interest coverage (times)	7.54	15.75	5.44

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

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-Cash Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	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	-	-	-	1)Withdrawn (01-Sep-22)	1)CARE BBB; Stable (16-Jun-21)	1)CARE BBB-; Negative (11-Sep-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB+; Stable (09-Sep-22) 2)CARE BBB+; Stable (01-Sep-22)	1)CARE BBB; Stable (16-Jun-21)	1)CARE BBB-; Negative (11-Sep-20)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A2 (09-Sep-22) 2)CARE A2 (01-Sep-22)	1)CARE A3+ (16-Jun-21)	1)CARE A3 (11-Sep-20)
4	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)CARE A2 (09-Sep-22) 2)CARE A2 (01-Sep-22)	1)CARE A3+ (16-Jun-21)	1)CARE A3 (11-Sep-20)
5	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)Withdrawn (09-Sep-22) 2)CARE A2 (01-Sep-22)	1)CARE A3+ (16-Jun-21)	1)CARE A3 (11-Sep-20)
6	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)Withdrawn (01-Sep-22)	1)CARE BBB; Stable (16-Jun-21)	1)CARE BBB-; Negative (11-Sep-20)

*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-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	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

Media Contact	Analytical Contacts
<p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Karthik Raj K Director CARE Ratings Limited Phone: +91 80- 46625555 E-mail: karthik.raj@careedge.in</p> <p>Y Tejeshwar Reddy Assistant Director CARE Ratings Limited Phone: +91-040 4010 2030 E-mail: Tejeshwar.Reddy@careedge.in</p> <p>Ramadevi Kamireddi Lead Analyst CARE Ratings Limited E-mail: Ramadevi.K@careedge.in</p>

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in