Bharat Rasayan Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	149.00	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	101.00	CARE A1+	Reaffirmed
Commercial paper (standalone)	-	-	Withdrawn
Commercial paper (carved out)*	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

*Carved out of sanctioned working capital limits of the company

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Bharat Rasayan Limited (BRL) continues to derive strength from the long track record of the promoters in the pesticides industry and group's integrated operations marked by presence across the entire value chain of the pesticides. The ratings also continue to draw strength from the benefits emanating from the diversified product mix offered by the company with 461 domestic registrations and 118 international registrations of products including technical grade as well as formulations, wide geographical presence covering more than 24 countries and long-term association with reputed customers. The ratings also continue to factor in the comfortable financial risk profile of the company marked with comfortable capital structure, comfortable debt cover indicators during FY23 (refers to period April 10 to March 31) and H1FY24 (refers to period April 10 to September 30), and healthy liquidity buffer available with the company in the form of unutilised working capital limits and mutual fund investments.

These rating strengths are, however, partially offset by the decline in operational performance of the company due to weak global demand scenario, dumping of cheaper products by China adversely impacting the prices and inventory loss booked by the company during H1FY24 albeit there has been improvement on QoQ basis from 3.26% in Q1FY24 to 6.95% in Q2FY24 and further to 13.30% in Q3FY24 (refers to period October 01 to December 31). Going forward, CARE Ratings Limited (CARE Ratings) expects gradual recovery in the company's revenue and profitability from Q4FY24 onwards with improving demand and stable prices globally.

The ratings further remain constrained by the company's exposure towards monsoon and climatic conditions, competitive nature of agrochemical industry, foreign currency fluctuations and working capital intensive nature of operations.

CARE Ratings Limited (CARE) has withdrawn the outstanding rating of CARE A1+ assigned to the commercial paper (CP) issue of BRL with immediate effect, as the company has not availed the aforementioned CP instruments rated by CARE and there is no amount outstanding under the said instruments as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of the company to enhance its scale of operations over ₹1,400 crore and PBILDT margin more than 15% on a sustained basis.

Negative factors

- Significant increase in the working capital cycle on a sustained basis impacting the liquidity profile of BRL.
- Sharp decline in revenue growth and fall in operating profitability margins below 12-14% beyond FY24-end on a sustained basis materially impacting cash generation.
- Deterioration in its capital structure with overall gearing of more than 0.60x in the projected period.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings' opinion of expected gradual recovery in the company's revenue and operating profitability from Q4FY24 with improved industry scenario and efforts to strengthen its business profile through entry into new products and segments. CARE Ratings also expects BRL's financial risk profile and liquidity to remain strong, supported by cash surplus, and prudent working capital management.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful promoters with long track record of operations in pesticides industry

BRL is a part of Bharat group; one of the leading manufacturers of technical grade pesticides in India and has been engaged in the operations of manufacturing and selling of pesticides for more than four decades. BRL is primarily managed by Mr. S.N. Gupta (Chairman and Managing Director) having vast experience in the fields of international business, overall marketing strategy and

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

corporate planning. Mr. M.P. Gupta (Whole time director of BRL and director of BRAL) is a graduate in commerce and has more than 39 years of relevant industry experience and looks after banking, finance, taxation, accounts and administration functions. Further, Mr. R.P. Gupta, whole of time director & CEO of BRL and director of BCAL, has over 31 years of experience in the agrochemical industry and looks after R&D, production and project execution activities. The promoters of the company have also extended support in terms of financial assistant towards the working capital requirements of the company in the past.
The directors of the group are supported by a team of professionals with rich experience in varied spheres of business. The promoters of Bharat group also hold close to 44% stake in Bharat Certis Agriscience Limited earlier known as Bharat Insecticides Limited.

Integrated operations offering diversified product mix.
BRL has a leading market position in many technical and intermediate products, including Lambda Cyhalothrin Technical, Metaphenoxy Benzaldehyde, Metribuzine Technical, Thiamethoxam (Insecticides) and Fipronil (Insecticides) among others and further added new products in past year, namely, Fluxametamide, Tolfenpyrad Technical, Diuron Technical, etc., which contributed around sales of ₹102.05 crore in FY23 and ₹98.88 crore in H1FY24. Though there is a product concentration risk as the top 10 products of BRL accounts for around 81.13% of the total sales of BRL in FY23 (PY: around 79.08%) and around 66% of total sales in H1FY24 (PY: around 81%).
Technical accounted for 79.94% of the total sales in FY23 (PY: 78.12%), intermediates accounted for 17.78% (PY: 18.98%), and formulation accounted for 1.22% (PY: 2.09%). The group derives cost advantage from the integrated operations through lower dependence on imports of technical, which is the key input for manufacturing of formulations.

Long standing relationship with reputed customer base
The company supplies its products in both locally as well as overseas locations and has a long-standing relationship with reputed customers, including NISSEI Corporation, Syngenta Crop, Biostadt India, Sumitomo Chemical Company among others. However, BRL is exposed to moderate client concentration risk, as its top 10 customers accounted for ₹793.84 crore in FY23 (around 63.41% of total operating income [TOI]) as compared with ₹722.79 crore in FY22 (around 54.97% of TOI). BRL also has long-established association with many reputed Japanese players and has a 30:70 joint venture (JV) with Nissan Chemical Corporation (NCC), which started commercial production from March 2023 and has reported total income of ₹69.90 crore in H1FY24 with PBILDT margin of around 37%.

Comfortable financial risk profile
The capital structure of the company remains strong marked by zero long-term debt and healthy net worth base of ₹901.19 crore as on March 31, 2023 (PY: ₹771.61 crore) while the total debt of the company reduced substantially to ₹36.84 crore from ₹179.93 crore as on March 31, 2022. The overall gearing stood comfortable at 0.04x as on March 31, 2023 (PY: 0.23x) and other debt coverage indicators were also healthy including total debt to gross cash accruals (GCA) and interest coverage ratio of 0.24x (PY: 0.89x) and 38.81x (PY: 40.99x), respectively.

Key weaknesses

Impacted performance during H1FY24 due to weak global demand scenario and dumping of cheaper products by China though expected to improve going forward
During FY23, BRL reported a marginal de-growth of 5% in TOI to ₹1,251.92 crore with slight moderation in operating profits from 20.47% in FY22 to 17.19% in FY23 due to increase in the input cost and occurrence of fire incident in Block D of Dahej plant in Q1FY23. BRL has further reported topline achievement of ₹744.93 crore in 9MFY24 (refers to the period April 01 to December 31) compared with ₹946.86 crore during 9MFY23; registering a decline of 21.33% with significant moderation of over a 800 bps on year-on-year (YoY) basis in the operating margin from 16.54% to 7.77% albeit there has been improvement on QoQ basis from 3.26% in Q1FY24 to 6.95% in Q2FY24 and further to 13.30% in Q3FY24. The same is further expected to gradually recover from Q4FY24 onwards with improving demand and stable prices globally.
The downward movement in the operational performance is primarily on account of the muted demand owing to destocking by global manufacturers and moderation in sales prices globally as the supplies of molecules from China continued to rise post COVID-19 period whilst the demand within China did not see an equivalent pickup, leading to decline in the prices. The falling prices further led to inventory destocking since many manufacturers carried high-cost inventory and even had to provision for the higher cost inventory impacting the profitability including BRL. The fall in the operating margins of BRL is also attributable to inventory loss booked by the company to the tune of ₹60 crore in H1FY24. Going forward, CARE Ratings expects gradual recovery in the company's revenue and profitability over 12-18 months' time. The recovery will also be supported by the management effort to strengthen its business profile through entry into new products and segments which are actively under development stage. Furthermore, the Block D at Dahej plant will restart the operations by end of current fiscal and contribute to overall volumes of the company.

Susceptibility of profitability and sales upon monsoon and climatic conditions
The pesticide/ crop protection industry derives its sales from the agriculture sector which is highly dependent upon monsoons as well as incidence of fungal/pest attack on crops. Major fluctuations in total rainfall and its distribution affect the crop and overall productivity and has a direct correlation with the sales and profitability of the pesticides industry. However, the aforesaid risk is partially mitigated through wide geographical presence of the company covering over 21 states in India and more than 24 countries, which reduces the dependence on a particular crop and also minimises the adverse impact of unfavourable monsoon season or crop infection in any specific state or region.

Exposure towards highly regulated and competitive nature of agrochemical industry
The pesticides industry is marked by heavy fragmentation with the absence of any key 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 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, the risk is mitigated as BRL holds 461 domestic registrations and 118 international registrations of products including both in technical grade as well as formulations.

Exposure towards foreign currency fluctuation risk
The Bharat Group is exposed to foreign currency fluctuation risk as the total export sales of BRL constitute 55.98% of the total sales of the company in FY23 (PY: around 51.29%). BRL is also importing raw materials for manufacturing of technical grade pesticides, as around 58-60% of the total purchases is imported mainly from China (85% of total imports), Japan (12-14%) and balance from other countries. Furthermore, foreign exchange fluctuation risk is reduced partially on account of natural hedge available in the form of export sales by the company. The company has booked a forex gain of ₹17.56 crore in FY23 (PY: ₹12.81 crore) on account of favourable exchange rate fluctuation. However, the long-term relationship with reputed customers, wide geographical presence and quality of its products insulates the company from any adverse demand-supply scenario in any particular country or state.

Working capital intensive nature of operations due to high inventory requirements and longer collection period
The pesticide industry requires high working capital investment due to high inventory holding and longer credit period on sales due to the commoditised nature of the products and seasonality factor. Average inventory holding remains at an elevated level and stood around 105 days as on March 31, 2023, increased from 78 days as on March 31, 2022.
BRL generally extends credit of around 90 days-120 days to its customers reflected through average collection period of 117 days as on March 31, 2023 (PY: 106 days), whereas the company makes early payments to its suppliers for availing early payment discount from domestic suppliers and purchases on cash basis from foreign suppliers. This results in average creditor period of around 25 days as on March 31, 2023 (PY: 22 days). The operating cycle of the company increased from 161 days as on March 31, 2022 to 197 days as on March 31, 2023, on account of high-base effect of receivables and inventory as higher sales were booked in the last quarter of FY23 and increased inventory due to a delay in dispatch of a consignment to Japan, which got dispatched in Q1FY24.

Liquidity: Strong
The liquidity is marked by healthy expected cash accruals of close to ₹70 crore in FY24 against zero debt repayment obligations and liquid investments to the tune of ₹91.54 crore as on March 28, 2024, largely held in the form of SBI mutual funds. Its unutilised fund-based bank lines of more than ₹117 crore as on March 28, 2024 are more-than-adequate to meet its incremental working capital needs over the next one year. Furthermore, with a low gearing of 0.04x as on March 31, 2023, BRL has sufficient gearing headroom to raise additional debt for its capex needs, if any. CARE Ratings notes that BRL has incurred capex of ₹81.18 crore during H1FY24 towards plant and machinery (mainly for revamping of fire damaged block at Dahej plant) out of internal accruals only and further does not have any significant debt-funded firm capex plans in the near future.

Environment, social, and governance (ESG) risks
The agro-chemical manufacturers have a high impact on environment primarily driven by high power consumption done during their manufacturing process. The sector also has a significant social impact because of its large workforce across its own operations and value chain partners, and due to its nature of operations affecting local community and health hazards involved. Bhart Rasayn Limited has been focusing on mitigating its environmental and social risks.
BRL being engaged into manufacturing of agrochemicals generates bio- hazardous waste and to reduce the adverse impact of the same, BRL has adopted various mitigating measures for the waste treatment in a proper manner through a Zero liquid discharge unit, effluent treatment plant, multi effect evaporator, ATFD and reverse osmosis plant. All the treated effluent is recycled back to process and cooling towers. The sludge/salt generated is disposed of at pollution control board approved treatment, storage and disposal facility (TSDF). During FY23, BRL sent 8,097.20 MT hazardous waste for landfill and 1,770.3 MT for co-processing to cement industry from its Dahej plant and 3066.955 MT for landfill and 367.49 MT for Incineration from Mokhra plant. Also have a process for re-cycling and re-using the waste- water generated at their manufacturing plant within the premises.
The company also regularly organises the employee engagement programmes, the outcome of these programmes is submitted to the concerned heads and to the board of directors for their review. BRL had spent Rs. 4.39 cores during FY23 (PY: Rs. 3.84 crores) towards CSR activities across various states of India and focussed on disadvantaged, vulnerable and marginalised segments of the society through supporting rural children’s education and promoting healthcare.
BRL has in place a sound and well-structured corporate governance framework to operate more efficiently and to ensure that the best interests of its stakeholders. The Board of Directors, as on March 31, 2023, comprises of ten directors out of whom five are executive directors and five are non-executive and independent directors.

Applicable criteria

Withdrawal Policy
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

Bharat Rasayan Ltd (BRL) was incorporated in the year 1989 and is the flagship company of Bharat group, which also comprises B R Agrotech Limited (rated CARE A+; Stable/CARE A1+) and Nissan Bharat Rasayan Private Limited (a 30:70 JV between BRL and Nissan Chemical Corporation). The promoters also hold 44% stake in erstwhile group entity Bharat Certis Agriscience Limited earlier known as Bharat Insecticides Limited. The group has presence in diverse product segments of the agrochemical industry including insecticides, herbicides, fungicides, their formulations & intermediates and operates through its two manufacturing units located at Mokhra (Haryana)- 4,260 metric tonne per annum (MTPA) and Dahej (Gujarat)- 29,200 MTPA.
BRL is amongst the leading manufacturers of technical grade pesticides in India and also has a Star Export house recognition from the government. The company caters to more than 24 countries including Japan, Switzerland, Singapore, Israel and USA among others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,314.85	1,251.92	744.93
PBILDT	269.10	215.16	57.89
PAT	177.13	130.83	25.70
Overall gearing (times)	0.23	0.04	Not Available
Interest coverage (times)	40.99	38.81	30.63

A: Audited UA: Unaudited; 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
Commercial Paper-Commercial Paper (Carved out)*		NA	NA	NA	0.00	Withdrawn
Commercial Paper-Commercial Paper (Standalone)*		NA	NA	NA	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	149.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	101.00	CARE A1+

*Not Placed

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-Cash Credit	LT*	149.00	CARE AA-; Stable	1)CARE AA-; Stable (27-Dec-23)	1)CARE AA-; Stable (03-Jan-23) 2)CARE AA-; Stable (25-May-22)	1)CARE AA-; Stable (23-Dec-21) 2)CARE AA-; Stable (20-Dec-21)	1)CARE AA-; Stable (30-Dec-20)
2	Non-fund-based - ST-BG/LC	ST*	101.00	CARE A1+	1)CARE A1+ (27-Dec-23)	1)CARE A1+ (03-Jan-23) 2)CARE A1+ (25-May-22)	1)CARE A1+ (23-Dec-21) 2)CARE A1+ (20-Dec-21)	1)CARE A1+ (30-Dec-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	-	1)Withdrawn (22-Dec-20)
4	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	1)CARE A1+ (27-Dec-23)	1)CARE A1+ (03-Jan-23) 2)CARE A1+ (25-May-22)	1)CARE A1+ (23-Dec-21) 2)CARE A1+ (20-Dec-21)	1)CARE A1+ (22-Dec-20)

5	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	1)CARE A1+ (27-Dec-23)	1)CARE A1+ (03-Jan-23) 2)CARE A1+ (25-May-22)	1)CARE A1+ (23-Dec-21)	-

*LT: Long term; ST: 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	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Commercial Paper-Commercial Paper (Standalone)	Simple
3	Fund-based - LT-Cash Credit	Simple
4	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.

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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.

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