Dhanuka Agritech Limited

July 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	30.00	CARE AA; Stable	Assigned
Long-term / Short-term bank facilities	33.00	CARE AA; Stable / CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned ratings of 'CARE AA; Stable / CARE A1+' to bank facilities of Dhanuka Agritech Limited (DAL). Ratings derive strength from DAL's experienced management having long track record of operations into the agro-chemicals industry and its long-term association with reputed multi-national companies such as Nissan Chemicals, Japan, providing access to specialty molecules and development on new molecules, which supports the company's margins to a large extent. The company has a diversified products portfolio with moderate geographical presence across India, USA, Japan, and China among others.

CARE Ratings also draws strength from the company's strong financial risk profile characterised by its robust capital structure, debt protection metrics, healthy profitability margins and growing scale of operations over the year backed by 40-50% revenue contribution coming from specialty molecules, growing market of new molecules which generated approximately 13% revenue in FY24 and expected to further increase to 17-18% in FY25 despite moderate industry scenario. CARE Ratings also takes note of the company's strong liquidity profile with a buffer available of more than ₹200 crore as on March 31, 2024, which is expected to further enhance in absence of any large capex plans and continuity of robust operational performance in near to medium term going forward.

However, these rating strengths are partially offset by DAL's exposure towards the highly regulated, competitive nature of crop protection industry, and susceptibility to climatic conditions and regulatory changes.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The company's ability to diversify and significantly enhance its scale of operations with sustained level of operating (profit before interest, lease rentals, depreciation and taxation [PBILDT]) margin more than 20% on a sustained basis.

Negative factors

- Sharply declining revenue and fall in operating profitability at levels of 10-12% materially impacting cash generation.
- Significant debt-funded capex leading to moderating liquidity profile and deteriorating capital structure with total debt to PBILDT of more than 0.50x.
- Regulation by the government putting ban on molecules produced by the company which may adversely impact the company's operations.

Analytical approach: Standalone

Outlook: Stable

'Stable' outlook assigned to the long-term rating of DAL reflects CARE Rating's expectation that company's financial risk profile will continue to remain strong in the near-to-medium term considering expected growth in revenue, profitability and cash accruals on the back of ramp-up of technical manufacturing facility at Dahej, Gujarat, and increasing contribution of new molecules, long-term association with MNCs for developing and marketing new specialty molecules having great demand potential and low competition.

Detailed description of key rating drivers:

Key strengths

Long-standing relations with reputed MNCs driving strong margins

The company has an established track record of dealing with leading global technical manufactures and focus more towards launching new molecules [9(3), ie, new registrations] in collaboration with technical partners such as Nissan Chemicals, Japan, which provide access to specialty molecules and derives better margins and will be the key growth drivers going forward. Presently, these technical tie-ups generate around 40% revenue of the company and act as a cushion in the margins.

Diversified products portfolio with moderate geographical presence

DAL has a satisfactory geographical presence covering India, USA, Japan, and China among others, with well-diversified products portfolio of over 90 products and 300+ registrations across insecticides, herbicides, fungicides reaching out to approximately 10 million Indian farmers, 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. DAL also procures the input material from USA, Japan, and

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

China among others. Total imports range around 15-20% of the total RM requirement while exports remain nominal. However, DAL does not follow any hedging policy to cover the foreign exposure.

Healthy profitability margin with growing scale of operations
DAL has moderate market capitalisation, a well-entrenched distribution network across the country, and an established operational track record of more than three decades.
DAL has demonstrated healthy revenue growth from ₹1,389.99 crore in FY21 to ₹1,758.54 crore in FY24 compounded growth rate of more than 8% with healthy PBILDT margin of 15-19% every year. In FY24, margins remained robust at 18.63% despite the destocking situation by global manufacturers (mainly China) and moderation in sales prices globally, which mainly impacted the technical and generic manufacturers. There was no major impact on DAL's operations as it is largely engaged in formulations and predominantly sells its products into the domestic market only. Dhanuka also has technical tie-ups with few MNCs such as Nissan Chemicals, which generates nearly about 40-45% of the company's revenue and works closely with these MNCs to develop the 9(3) molecules. In FY24, the new molecules contributed around 13.29% revenue of DAL and is expected to increase to about 18% in FY25 as guided by the management.
DAL also started technical manufacturing at Dahej, Gujarat, since August 2023 generating a revenue contribution of ₹7.50 crore in FY24, which is expected to increase to ₹30-40 crore in FY25.

Strong financial risk profile with robust capital structure and coverage indicators
DAL's overall financial risk profile is strong marked with zero long-term debt against a strong net worth base of ₹1,254.98 crore as on March 31, 2024, increased from ₹794.38 crore as on March 31, 2021. The overall gearing stood comfortable at 0.05x as on March 31, 2024, improved from 0.11x as on March 31, 2021. Other debt coverage indicators are also healthy including total debt to gross cash accruals (GCA) of 0.22x as on March 31, 2024 (FY21: 0.39x) and interest coverage ratio of over 100x in FY24.
Cash generated by DAL is partially ploughed back in system for growth prospects and partially distributed as dividend. In FY24, DAL paid out interim and final dividend of ₹8 and ₹2 per share, respectively, resulting in a total outflow of ₹45.58 crore and further in FY25, dividend declared for ₹6 per share summing to ₹27.35 crore. Apart from this, DAL also bought back 1,000,000 shares at ₹850 each amounting to ₹85 crore and tax on buy back of ₹19.75 crore in FY23 (previously done in September 2020, January 2019 and January 2017).
However, in the absence of any large debt-funded capex plans, DAL's financial risk profile is expected to remain strong in the near to medium term driven by robust operational performance and efficiently managed working capital requirements.

Key weaknesses
Exposure towards highly competitive nature of crop protection industry
The agro-chemical 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. The industry also faces regulatory risk due to prohibited usage of certain molecules. However, DAL holds 300+ registrations of products.

Revenue and profitability susceptible to climatic conditions, regulatory changes, and price volatility
The agrochemical/ crop protection industry remains exposed to risks such as irregular monsoon, incidence of fungal/pest attack on crops, volatility in farm income, specific registration processes in different countries, and various environmental rules and regulations and volatility in raw material prices. Any ban on key products will also pose a threat to business of players such as DAL, though the company has a widespread portfolio of products which can offsets/lowers impact of possible ban of any product.

Liquidity: Strong
Liquidity is marked strong with a track record of generating cash accruals of over ₹200 crore for the past four years on record through FY24 against nil long-term debt obligations (except lease liabilities) and further aided by liquid investments held in form of debentures/bonds, Mutual funds, and FDR, among others, aggregating close to ₹200 crore as on March 31, 2024. With a comfortable gearing of 0.05x as on March 31, 2024, DAL has sufficient gearing headroom, to raise additional debt for its capex/growth requirements over near future. Moreover, the buffer available in the form of unutilised fund-based limits of nearly ₹50 crore are more than adequate to meet its incremental working capital needs over the next one year. CARE Ratings also takes note of the long track of dividend distribution by the company, which partially consumes the company's cash flow.

The agro-chemical industry requires high working capital investment due to high inventory holding, large number of SKUs and longer credit period on sales due to the commoditised nature of the products and seasonality factor. Average inventory holding period was 105 days as on March 31, 2024, compared to 95 days as on March 31, 2021. The average collection period stood at 71 days as on March 31, 2024, compared to 64 days as on March 31, 2021, whereas the company makes early payments to its suppliers resulting in average creditor period of around 41 days as on March 31, 2024 (FY21: 36 days). The company's operating cycle increased from 122 days as on March 31, 2021 to 135 days as on March 31, 2024, considering increasing number of products and inventory.

Environment, social, and governance (ESG) risks

The agro-chemical manufacturers have a high impact on environment primarily driven by high power consumption done in 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 the local community and health hazards involved. DAL has been focusing on mitigating its environmental and social risks.

Environmental: The company has a zero-discharge policy and has also installed effluent treatment plant (ETP) for industrial effluent and a sewage treatment plant (STP) for domestic effluent. Additionally, a rain harvesting system collects rainwater through stormwater drainage, maintaining groundwater levels and ensuring no rainwater is wasted. The company has also installed scrubbers to remove contaminants from air emissions, with the water used in this process recycled and treated in the ETP. In FY23, DAL generated 27,236 metric tons of hazardous waste, of which 23,398 metric tons were recycled and 3,838 metric tons were incinerated.

Social: The company also engages in various social initiatives; it organises employee engagement programmes regularly with outcomes reviewed by management and the Board of Directors. In FY23, DAL spent ₹4.8 crore on CSR activities, focusing on supporting rural children's education and promoting healthcare for disadvantaged, vulnerable, and marginalised segments of society.

Governance: The company has adopted a robust framework designed to ensure efficient operations and protect stakeholders' interests. As on March 31, 2024, the Board of Directors comprises 12 members, including six Executive Directors & Non independent directors and six non-executive independent directors including one woman director. This balanced structure supports the company's commitment to high standards of corporate governance.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Pesticides & Agrochemicals
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Fertilizers & agrochemicals	Pesticides & agrochemicals

Incorporated in 1985, DAL is promoted and managed by Ram Gopal Agarwal (Group Chairman & Founder) and his brother, Mahendra Kumar Dhanuka (Managing Director & Vice Chairman). DAL is engaged in manufacturing formulations (around 99%) and technical in agro-chemicals segment such as insecticides, pesticides, and herbicides, among others, through its manufacturing facilities at Sanand (Gujarat), Udhampur (Jammu and Kashmir), Keshwana (Rajasthan), and Dahej (Gujarat), respectively.

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)
Total operating income	1,700.22	1,758.54
PBILDT	278.96	327.62
PAT	233.51	239.09
Overall gearing (times)	0.07	0.05
Interest coverage (times)	85.84	100.33

A: Audited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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-Working capital limits		-	-	-	30.00	CARE AA; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	33.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Working capital limits	LT*	30.00	CARE AA; Stable				
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	33.00	CARE AA; Stable / CARE A1+				

*LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

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

Note on complexity levels of 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:
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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