Punjab Chemicals and Crop Protection Limited

September 6, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	27.35 (Reduced from 35.02)	CARE BBB+; Stable	Reaffirmed
Long-term / short-term bank facilities	80.00 (Enhanced from 60.00)	CARE BBB+; Stable / CARE A2	Reaffirmed
Short-term bank facilities	30.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings on bank facilities of Punjab Chemicals and Crop Protection Limited (PCCPL) considers PCCPL's healthy financial risk profile, wide geographical presence and diversified product portfolio, extensive experience of the promoters in the agrochemical sector, and professional management team.
However, rating strengths are offset by customer concentration risk, exposure to risks inherent in the agrochemical sector, margins susceptible to raw material price volatility and foreign exchange fluctuations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly increasing revenue and profit before interest, lease rentals, depreciation, and taxation (PBILDT) resulting in cash accruals over ₹100 crore on a sustained basis.
- Improving capital structure marked by total outside liabilities to tangible net worth (TOL/TNW) below unity on a sustained basis.

Negative factors

- Declining turnover and lower-than-envisaged PBILDT margins, resulting in dip in cash accruals below ₹75 crore on a 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. (Refer annexure-6)

Outlook: Stable

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

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

Detailed description of key rating drivers:

Key strengths

Healthy financial risk profile

PCCPL's total operating income (TOI) declined by ~7% in FY24 (refers to period April 1 to March 31) to ₹934.23 crore from ₹1,006.51 crore in FY23. The decline was due to continued high channel inventory and pricing- pressure in key overseas markets and erratic weather conditions in the domestic market. PBILDT margin declined marginally in FY24 and stood at 12.18% (FY23: 12.27%). Amidst the continued challenging environment, TOI remained subdued in Q1FY25 (refers to period April 1 to March 31), at ₹242.73 crore (₹281.62 crore in Q1FY24), while PBILDT margin was seen lower at 11.55% (13.52% in Q1FY24) resulting from higher employee benefit expenses and freight costs.

Nevertheless, PCCPL's financial risk profile remained healthy. The capital structure continues to remain comfortable with TNW of ₹326.46 crore as on March 31, 2024 (₹279.88 crore as on March 31, 2023) and overall gearing of 0.38x as on March 31, 2024 (0.34x as on March 31, 2023). The capital structure is likely to remain comfortable in the near term in the absence of large debt-funded capex. Debt coverage indicators remained satisfactory with total debt to gross cash accruals (TDGCA) and interest coverage of 1.57x and 4.40x, respectively (PY: 1.15x and 5.80x). PCCPL is likely to maintain its financial risk profile supported by gradual recovery in the end-user markets.

Wide geographical presence and diversified product portfolio

PCCPL derived around 47% (41% in FY23) of its revenue from domestic sales and the balance 53% (59% in FY23) revenue from exports in FY24. The major export destinations are Europe, Japan, Israel, USA, and Latin America.

PCCPL also benefits from its diversified product portfolio, which is segmented into three categories, viz. agrochemicals, performance/ specialty chemicals, and industrial chemicals.

Extensive experience of promoters in the agrochemical sector and professional management team

The company has a track record of more than four decades in manufacturing agrochemical products. Shalil Shroff (Managing Director), the second-generation promoter, has over three decades of experience in the chemical industry. Mukesh Patel (Chairman) has more than four decades of experience 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 experienced promoters and a professional management team.

Key weaknesses

Customer concentration risk

PCCPL is exposed to customer concentration risk, as the top five customers contributed nearly 68% to TOI in FY24 (65% in FY24). Nevertheless, the potential risk is partially offset by the fact that the company has long-term arrangements with these customers. Also, product registration challenges such as long tenor and high cost among others at customers' end, increases probability of contract renewal by the clients to a large extent. Going forward, the company is planning to add new products and customers to diversify its customer base, which remains a key rating monitorable.

Exposure to risks inherent in agrochemical sector

The crop-protection sector remains susceptible to environmental rules and regulations in different countries. The sector highly depends 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 laws and significant adverse change in the regulatory policies or distribution of monsoon may have significant impact on PCCPL's revenues.

Susceptibility to raw material price volatility and forex fluctuation risk

Around 60-65% of the company's operating cost consists of raw material expenses. Rapid changes in the base chemicals market with significant adjustments to the global demand and supply chain create a volatile environment which exposes consumers like PCCPL to the raw material price volatility. Around 22-25% of its major raw materials requirements are met through imports, and is exposed to foreign exchange fluctuation risk. PCCPL being a net exporter (around 53% of sales), the forex risk is partly covered by natural hedge.

Liquidity: Adequate

PCCPL's liquidity profile is characterised by comfortable cushion in accruals against repayment obligations. Cash flows from operations are expected to adequately cover the external repayment obligations of around ₹15 crore. The average monthly utilisation of working capital limits remained at around 79% for the past 12 months through July 31, 2024. The unutilised portion provides an additional cushion. The operating cycle is seen at 78 days in FY24 (FY23: 59 days)The company had free cash and bank of ₹7.56 crore and mutual fund investments of ₹6.45 crore as on March 31, 2024.

Assumptions/Covenants: Not applicable

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

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
Consolidation

About the company and industry

Industry classification

Macroeconomic 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 Limited 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 company's name was changed to PCCPL. 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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1006.51	934.23	242.73
PBILDT	123.50	113.83	28.03
PAT	61.10	53.58	13.44
Overall gearing (times)	0.34	0.38	NA
Interest coverage (times)	6.85	5.46	6.94

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Brief Financials (₹ crore) (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25(UA)
Total operating income	1,004.24	930.55	241.79
PBILDT	122.70	112.74	28.09
PAT	60.94	54.45	13.50
Overall gearing (times)	0.32	0.36	NA
Interest coverage (times)	6.89	5.87	6.95

A: Audited UA: Unaudited NA: Not available; 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

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term loan		-	-	December 2027	27.35	CARE BBB+; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	80.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Letter of credit		-	-	-	30.00	CARE A2

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-Term loan	LT	27.35	CARE BBB+; Stable	-	1)CARE BBB+; Stable (26-Dec-23) 2)CARE BBB+; Stable (06-Sep-23)	1)CARE BBB+; Stable (30-Aug-22)	1)CARE BBB+; Stable (23-Nov-21) 2)CARE BBB; Stable (06-Apr-21)
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	80.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (26-Dec-23) 2)CARE BBB+; Stable / CARE A2 (06-Sep-23)	1)CARE BBB+; Stable / CARE A2 (30-Aug-22)	1)CARE BBB+; Stable / CARE A2 (23-Nov-21) 2)CARE BBB; Stable / CARE A3+ (06-Apr-21)
3	Non-fund-based - ST-Loan equivalent risk	ST	-	-	-	1)Withdrawn (06-Sep-23)	1)CARE A2 (30-Aug-22)	1)CARE A2 (23-Nov-21) 2)CARE A3+ (06-Apr-21)
4	Non-fund-based - ST-Letter of credit	ST	30.00	CARE A2	-	1)CARE A2 (26-Dec-23) 2)CARE A2 (06-Sep-23)	1)CARE A2 (30-Aug-22)	1)CARE A2 (23-Nov-21)

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

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

Annexure-4: Complexity level of 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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	SD AgChem (Europe) NV	Full	Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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