India Pesticides Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	80.00	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	80.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of India Pesticides Limited (IPL) continue to derive strength from extensive experience of promoters and management team in pesticides industry and strong competitive position of the company for some of its molecules in domestic and international markets. Ratings also continue to take comfort from comfortable financial risk profile with strong liquidity position despite reduced scale of operations in FY24 (refers to April 01 to March 31), diversified product offerings in technical business and reputed, though concentrated, customer base. Ratings also take cognisance of ongoing capex plans within the company and the wholly owned subsidiary, which is expected to start commercial operations in second half of FY25, which shall be funded entirely through internal accruals.

However, ratings continue to remain constrained by customer concentration risk, exposure to fluctuation in raw material prices and foreign currency exchange rates as majority of the raw material is imported, though some part of the exposure is covered through natural hedge. Ratings also continue to remain constrained by the working capital intensive business operations, vulnerability to agro-climatic conditions and inherent regulatory risk associated with the business. Ratings also take cognisance of moderate scale of operations and profitability margins in FY24, which has been seen across the agro-chemical industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations marked by total operating income (TOI) increasing to ₹1000 crore or above while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin at 20% and above on a sustained basis.
- Diversifying overall product portfolio resulting into lower concentration on top two products.

Negative factors

- Significantly increasing working capital cycle on a sustained basis impacting IPL's liquidity profile.
- Deteriorating capital structure with overall gearing of over 0.40x in the projected period.
- Sharply declining revenue growth and fall in PBILDT margins below 15% beyond FY24-end on a sustained basis, materially impacting cash generation.

Analytical approach: Standalone, factoring support provided to group companies in terms of investment, loans and advances.

Outlook: Stable

The Stable outlook reflects CARE Ratings Limited's (CARE Ratings) opinion that the company will continue to benefit from extensive experience of promoters, diversified product portfolio in technical business, long track record of operations, and reputed clientele.

Detailed description of key rating drivers:

Key strengths

Promoter's long-standing experience in the pesticides industry

IPL is promoted by Anand Swarup Agarwal, a first generation entrepreneur. He has four decades of experience in the pesticides industry and is supported by an experienced team of professionals. He was the chief editor of Hindi Daily "Rashtriya Swarup" published by Swarup Publications (a group company) and a former director on the board of PNB Gilts Ltd. He has also served as non-executive director of Punjab National Bank and Indian Overseas Bank. Anand Swarup Agarwal is assisted by his two sons Vishal Swarup Agarwal and Vishwas Swarup Agarwal, both with post graduate qualification in Business Administration. The

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

company has long standing association with the stakeholders customers, and suppliers, among others. Most of the company's sales are institutional, made to companies with prominent presence in domestic and international markets.

Diversified Product Portfolio
IPL has ~28-30 molecules (technical) registered in India. The domestic product portfolio is dominated by a few off patent old generic molecules, leading to moderate sales concentration risk. The company is continuously investing in its research and development capabilities to develop new molecules, which are expected to reduce its dependence on old molecules. IPL has also registered its products (Captan and Folpet) for exports in 25 countries across America, Europe, Asia and Australia, which is a step towards reducing the company's dependence on domestic markets. The company has a distribution network consisting of over 4700 dealers with 20+ sales depots and sales force in place for marketing across Gujarat, Rajasthan, Maharashtra, Andhra Pradesh, Madhya Pradesh, Punjab, Haryana, and Uttar Pradesh, among others.

Comfortable financial risk profile, despite moderation in scale of operations and profitability in FY24
The company's financial risk profile continues to be strong despite moderation in TOI and profitability in FY24, characterised by overall gearing of 0.02x as on March 31, 2024, which is at a similar level as on March 31, 2023. Interest coverage ratio remains healthy at 23.89x for FY24. Total debt to PBILDT (TD/PBILDT) and TD to gross cash accruals (TD/GCA) moderated to 0.22x & 0.24x respectively in FY24 from 0.03x & 0.03x respectively in FY23, which was considering lower margins.
Scale of operations moderated in FY24 by 23%, with TOI at ₹684.08 crore against ₹892.55 crore in FY23. The moderation was primarily due to fall in realisations and reduced demand in export market in FY24. Major clients of the company deferred their orders due to channel destocking and pricing pressure from China's re-entry into the market. Domestic demand also remained under pressure due to lower prices offered by Chinese counterparts and impact of El Nino.
To address channel destocking, major exporters offered rebates to distributors, resulting in a price reduction and pressure on operating profitability in FY24. PBILDT margins moderated to 13.23% in FY24 (PY: 22.99%).

Key weaknesses
Working capital intensive business
In FY24, the company's operating cycle elongated to 211 days compared to 152 days in FY23. The elongation in operating cycle was largely due to reduced scale of operations and relatively high inventory at the end of the year due to demand remaining under pressure. Moreover, inventory requirement for pesticides industry generally remains high due to commoditised nature of products and seasonality factor (high demand in crop sowing seasons). The company has to allow higher credit period for newly launched products to generate demand initially.

Customer concentration risk and exposure to fluctuations in raw material prices
In FY24, the company had a total net sale of ~₹680 crore, of which, ~28% (PY: ~47%) was made to top five customers. Customer concentration risk remains moderate, however, the percentage reduced in FY24, primarily because of two major export customers deferring their orders for later date due to high channel inventory and adverse weather conditions in Europe and Australia. Orders were mainly targeted for Q4-FY24. However, considering recovery in volumes that is expected across the industry, the percentage of sale from top five customers is expected to be in the similar range as in previous years.

Exposure to foreign currency fluctuation risk
IPL's products are registered in over 25 countries across the globe. The company generated ~40% revenue from exports in FY24, which exposes it to inherent risk of foreign exchange fluctuation. However, IPL imports some portion of its raw material requirement, which provided a natural hedge to some extent. The company majorly imports Tetra Hydro Phthalic Anhydride (THPA), Ammonium Thiocyanate, Di N Propylamine and Cyano Acetyl Ethyl Urea from mainly Taiwan and China. Though company has a hedging policy in place, total exports sales have been higher than raw materials imported and in the last few years the rupee has been on declining trend. In FY24, the company booked a net forex gain of ₹3.45 crore (net forex gain of ₹7.61 crore in FY23).

Liquidity: Strong
The company's liquidity is strong supported by free cash and cash equivalents balance of ~₹99 crore as on March 31, 2024, which includes investment in mutual funds and free FDRs. The company has sanctioned working capital limits of ₹80.00 crore and the average monthly fund-based working capital utilisation for 12-months ending July 2024 stood ~13%. The company has negligible repayment obligation going forward against expected healthy GCA of ~₹108 crore. The company has planned capex of ~₹50 crore within the company and capex of ~₹36 crore with in the wholly owned subsidiary in FY25, which will be completely funded through internal accruals.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and actions by the company
Environmental	1. The 'Food Forestation' initiative revitalised unused lands across five designated sites, turning them into productive areas for growing fruits and vegetables. 2. Attained certification for Zero Liquid Discharge. 3. Utilised the Miyawaki technique to enhance greenery surrounding manufacturing facilities. 4. Implemented the 5Rs principle and advanced systems such as ETP and RO: - Reduce - Reuse - Repair - Recycle - Recover
Social	1. The company adopted four villages in Sandila, and Hardoi, focusing on instilling sustainability in the youth. The company's Chairperson, Dr Madhu Dikshit, inaugurated the "Swarup Kaushal Vikas Kendra," a skill development centre, inspiring children and youth to think of a better tomorrow. This centre offers skill development opportunities, nurturing youth talents and interests. By engaging with the community, the company aims to empower the future generation to act with sustainability in mind, fostering a brighter and more sustainable future for all. 2. The company developed rainwater harvesting systems on unused rooftops of two government schools in Sandila, Hardoi. Students were taught how the system works and its benefits. The company also conducted WASH hygiene awareness programs and constructed washing facilities at these schools. 3. The company installed open gyms in five parks in Lucknow, with cooperation from local authorities, to promote fitness. The company regularly support society through nutritional supply for poor children in government hospitals, financial aid for critical illness treatments, providing medicines, installing water coolers, and distributing blankets in winter.
Governance	1. IPL maintains board diversity to ensure a competitive edge over peers. Board members come from different backgrounds, which enables the company to leverage varied regional and industry insights, streamlines decision-making processes and empowers the company to adapt to a dynamic environment. 2. As the company expands its operations and grow steadily, it becomes imperative to protect the organisation from internal and external risks. IPL has a dedicated Risk Management Committee in place that helps in identifying risks, implementing proper mitigation measures, and ensuring proper compliance. The company ensure its risk management policies promote sustainability for the long term.

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

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Fertilizers & agrochemicals	Pesticides & agrochemicals

IPL was established in 1984, became public limited company in 1993 and got listed on stock exchanges in July 2021. IPL is engaged in manufacturing pesticides (technical & formulations) and pharmaceutical intermediates. IPL's products are well-established in Indian and international markets. As of June 30, 2024, the aggregate installed capacity of the company's manufacturing facilities for agro-chemical Technical was 24,200 MT and Formulations was 6,500 MT.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	892.55	684.08	220.36
PBILDT	205.17	90.53	28.59
PAT	144.46	61.19	20.06
Overall gearing (times)	0.01	0.02	NA
Interest coverage (times)	33.86	23.89	31.08

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/ ST-Working Capital Demand loan		-	-	-	80.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	80.00	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/ ST-Working Capital Demand loan	LT/ST	80.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (04-Sep-23)	1)CARE A+; Stable / CARE A1+ (06-Oct-22)	1)CARE A+; Stable / CARE A1+ (02-Dec-21)
2	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1+	-	1)CARE A1+ (04-Sep-23)	1)CARE A1+ (06-Oct-22)	1)CARE A1+ (02-Dec-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/ ST-Working Capital Demand loan	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

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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