Punjab Chemicals and Crop Protection Limited

November 23, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	55.84 (reduced from 61.15)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short term Bank Facilities	35.00 (enhanced from 5.00)	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Long term/Short term (LT/ ST) Bank Facilities	20.00	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/A Two)	Revised from CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/A Three Plus)
Total Facilities	110.84 (Rs. One hundred ten crore and eighty four lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings to the bank facilities of Punjab Chemicals and Crop Protection Limited (PCCPL) takes into account significant improvement in financial risk profile of the company evident from increase in total operating income and profitability in FY21 (FY refers to the period April 01 to March 31) and H1FY22 thereby increase in profitability margins, improved leverage profile and liquidity position. The ratings also positively factor in experienced promoters having long term presence in agrochemical industry, medium term revenue visibility under Contract Research and Manufacturing (CRAMs) business model and recent uptrend witnessed by agrochemical sector.

The rating strengths are however offset by revenue and client concentration risk, presence of the company in a highly regulated and seasonal industry, susceptibility of margins on account of volatility in raw material prices and foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operation above Rs.1250 crore along with sustained profitability margins higher than 14%.
- Overall gearing below 0.40x (consolidated) on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in leverage profile with overall gearing above unity.
- Significant decline in turnover coupled with lower than envisaged operating profit margins.
- Debt funded acquisitions impacting leverage

Detailed description of the key rating drivers

Key Rating Strengths

- ***Growing scale of operations and strong profitability:*** PCCPL has reported growth in total operating income (TOI) by 22% in FY21 over FY20. The growth is driven by healthy demand in agrochemicals and orders in hand under contract manufacturing arrangement. The operating profit of the company almost doubled in FY21 over FY20 owing to cost optimization and negotiation with clients from better product pricing. In addition, the profitability margins have remained strong at 14.29% (increased from 9.02% in FY20) as a result of higher sales mix from better margin products. During H1FY22, the company has demonstrated healthy performance with TOI of Rs.421.00crore with PBILDT of Rs.69.16crore and PAT of Rs.42.23crore. The performance is expected to remain strong in balance half of the fiscal as well. The profit margins are expected to sustain aided by commercialization of certain high margin products in FY22-23.
- ***Improved leverage profile:*** The company has comfortable capital structure marked by overall gearing at 0.61x as on March 31, 2021 improved from 1.05x as on March 31, 2020. Higher accretion of profits to net worth in conjunction with repayment of debt close to Rs.13 crore has resulted into better leverage position. Further on account of improved profit levels, the total debt/Gross Cash Accruals (GCA) and term debt/ GCA have also improved to 1.29x and 1.21x respectively in FY21 as compared

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

to 4.02x and 2.04x respectively in FY20. The leverage profile is expected to remain comfortable in the absence of any significant debt funded capex plans of the company.

- ***Experienced promoters and professional management:*** The company has a track record of more than four decades in manufacturing of crop protection products. Mr. Shalil Shroff (Managing Director), the second-generation promoter has an experience of over 3 decades in the chemical industry. Mr. Mukesh Patel (Chairman) is experienced in finance and corporate management for more than 4 decades. The promoter is supported by a qualified team of professionals, Mr. Vinod Kumar Gupta (Chief Executive Officer, CEO), a Chemical Engineer and has more than 23 years experience in Operations Management in large Petrochemicals and Oleochemicals sector. Dr. S. Sriram, (CFO), is a PhD in supply chain management and has 33 years of experience in total. Dr. Sriram brings in 15 years of experience from UPL Limited as a General Manager to CFO.
- ***Medium term revenue visibility:*** PCCPL has arrangements with multinational companies under CRAMS business model which is based on cost plus pricing mechanism. The contract has a tenor of 5 years and most of these agreements get auto renewed, providing medium-term revenue visibility for the company. Also, product registration challenges like long tenor, high cost etc, at customer's end, increases probability of contract renewal by the clients to a large extent.

Key Rating Weaknesses

- ***Revenue and client concentration risk:*** Key products driving revenue of PCCPL contribute around 55-60% of the total sales in FY21 (similar in FY20). Further, the top 5 customers contribute nearly ~75% to total operating income in FY21 (similar in FY20). However, the long track record and long-standing relationship of the company with reputed clientele has enabled the company to garner repeat orders from them which aided the growth in scale of operations in the last three years. Also, going ahead, with increase in focus on intermediary business as well, the concentration risk of the company is expected to reduce gradually.
- ***Exposure to risk, intrinsic in agrochemical industry:*** The crop-protection sector remains susceptible to various environmental rules and regulations in different countries. The sector is highly dependent 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 any of the laws and any significant adverse change in the regulatory policies or distribution of monsoon may have significant impact on PCCPL's revenues.
  Nevertheless, the demand for agrochemicals is expected to remain strong with high growth potential over medium term.
- ***Susceptibility to volatility in raw material prices and forex fluctuation risk:*** Around ~60-70% of the operating cost of the company consists of raw material expenses. Rapid changes in the base chemicals market with significant adjustments to the global demand and supply chain creates a volatile environment which exposes consumers like PCCPL to susceptibility to the volatility in raw material prices. The risk is largely mitigated, given, the company has a long-term contract with the suppliers for key raw materials- Metamitron and Hydrazine Hydrate, imported from Europe, China and Japan. Additionally, presence of pass-through clause for raw material price hike though with a lag time of one quarter, enhances comfort. Around ~30-35% of its major raw materials requirements are met through imports, hence is exposed to foreign exchange fluctuation risk as well. The forex risk is partly covered by natural hedge, PCCPL being net exporter (~50-60% of sales). The major export destinations are Netherlands, Belgium, United Kingdom, Israel and Italy.

Liquidity: Adequate

The liquidity profile of PCCPL is characterized by moderate cushion in accruals vis-à-vis repayment obligations. The cash flows from operations are expected to be adequate at Rs.97.22crore in FY22 as against the external repayment obligations of Rs.17.38crore in FY22. Working capital limits to the tune of Rs.20 crore remained largely un-utilized at 21% during last 14 months ending October 2021. The company has free cash and bank of Rs.19.77 crore as on September 30, 2021.

Analytical approach: Consolidated. CARE has considered the business and financial risk profiles of Punjab Chemicals and Crop protection in consolidation with SD AgChem (Europe) NV (SDAC), Belgium, wholly owned overseas subsidiary company. SDAC, is the marketing arm of the group in Europe with various Registrations for immediate supply of Company's products in the region.

Name of subsidiary	% of holding
SD AgChem (Europe) NV, Belgium	100

Applicable Criteria

[CARE's Criteria on assigning outlook and credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Consolidation]
[Liquidity Analysis of Non-Financial Sector Entities].

About the Company
Incorporated in November 1975 as Punjab United Pesticides & Chemicals Limited as Joint Venture between Punjab State Industrial Development Corporation Limited (PSIDC) and Excel Industries Limited (EIL). Later in March 2006, the nomenclature was changed to Punjab Chemicals and Crop Protection Limited (PCCPL) with all its divisions – Agrochemicals, Pharmaceuticals, Intermediates, Chemicals & International Trading, under one umbrella. The company is specialised in agrochemicals which are key revenue driver for the company (70-80%). The company is into contract research and manufacturing (CRAMS) largely for agrochemicals. CRAMS accounted approximately ~60-70% of the revenue during FY21.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	554.71	679.75	421.00
PBILDT	50.01	97.16	69.16
PAT	10.75	49.08	42.23
Overall gearing (times)	1.05	0.61	0.48
Interest coverage (times)	2.76	7.22	13.48

A: Audited; Prov.: Provisional
Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable
OR

Disclosure of Interest of Managing Director & CEO: 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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Dec 2027	55.84	CARE BBB+; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	20.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Loan Equivalent Risk	-	-	-	-	5.00	CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	-	30.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	55.84	CARE BBB+; Stable	1)CARE BBB; Stable (06-Apr-21)	1)CARE BBB-; Stable (22-Jun-20) 2)CARE BBB-; Stable (03-Jun-20)	-	-
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	20.00	CARE BBB+; Stable / CARE A2	1)CARE BBB; Stable / CARE A3+ (06-Apr-21)	1)CARE BBB-; Stable / CARE A3 (22-Jun-20) 2)CARE BBB-; Stable / CARE A3 (03-Jun-20)	-	-
3	Non-fund-based - ST-Loan Equivalent Risk	ST	5.00	CARE A2	1)CARE A3+ (06-Apr-21)	1)CARE A3 (22-Jun-20) 2)CARE A3 (03-Jun-20)	-	-
4	Non-fund-based - ST-Letter of credit	ST	30.00	CARE A2	-	-	-	-

**Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
(i) Total debt/EBIDTA	Required value <= 0.60x as on FY21
(ii) Current ratio	Required value 1.00x as on FY21
(iii) TOL/ATNW	Required value <= 3.00x in FY21 (TOL including Unsecured loans)

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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-Loan Equivalent Risk	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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