

Bharat Rasayan Limited

December 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	149.00 (Reduced from 150.00)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	101.00 (Enhanced from 50.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	250.00 (Rs. Two Hundred Fifty Core Only)		
Commercial Paper (Standalone)	50.00	CARE A1+ (A One Plus)	Assigned
Commercial Paper (Carved out)*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	100.00 (Rs. One Hundred Core Only)		

*Carved out of sanctioned working capital facilities

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The assigned to the bank facilities of Bharat Rasayan Limited (BRL) continue to derive strength from the long track record of the promoters in the pesticides industry and its integrated operations marked by its presence in the entire value chain of the pesticides. The ratings, further factor in its wide marketing & distribution network with large number of product registrations and its reputed customer base across the globe. The ratings also factor in comfortable financial risk profile of the company characterized by its growing scale of operations in the past except for FY21 (refers to period from April 01 to March 31) which was marred due to disruption caused by Covid-19, strong capital structure and healthy debt coverage indicators. These rating strengths are, however, partially offset by its exposure to foreign currency fluctuation risk, working capital intensive nature of its operations, highly regulated & competitive nature of the pesticides industry and vulnerability of the operations to agro-climatic conditions.

Rating Sensitivities

Positive factors (Factors that could lead to positive rating action/upgrade)

- Increase in the total operating income by 30% or more on a sustained basis without impacting its profitability margins.
- Ability of the company to achieve a total debt to GCA of less than 0.20x on a sustained basis.
- Ability to improve its PBILD margins by more than 300bps on a sustained basis from the current levels.

Negative factors (Factors that could lead to negative rating action/downgrade)

- Significant increase in the working capital cycle on a sustained basis impacting the liquidity profile of BRL.
- Decline in TOI by more than 20% or decline in PBILD Margin by more than 500 bps on a sustained basis.
- Deterioration in its Capital Structure with Overall Gearing of more than 0.60x in the projected period.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of management in the pesticides industry and resourceful promoters

BRL being part of the Bharat group, benefits from the long track record of operations and experienced management of the group. BRL is one of the leading manufacturers of technical-grade pesticides in India and has been engaged in the operations of manufacturing and selling of pesticides with the promoter's experience spanning more than four decades. Mr. S.N. Gupta, Chairman and Managing Director (MD) of BRL, is a postgraduate in economics and has vast experience in the fields of international business, overall marketing strategy and corporate planning besides the pesticides industry. Mr M.P. Gupta, whole-time director of BRL and BRAL, is a graduate in commerce and has more than 38 years of experience. He looks after banking, finance, taxation, accounts and administration. Furthermore, Mr R.P. Gupta, whole of time director of BRL and BRAL, has over 30 years of experience in the agrochemical industry. He looks after R&D, production and project execution activities. The directors of the group are supported by a team of professionals with rich experience in varied spheres of business. The promoters of the company have a demonstrated track record in supporting the working capital requirements of the company as and when required.

Integrated operations offering diversified product mix

BRL is majorly in the manufacturing of technical and the sales of technical of the company is also made to BR Agrotech Limited (BRAL), which uses it as a raw material for the manufacturing of formulations. BRL also manufactures intermediates, which is

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

the raw material for manufacturing technical grades. BRL and BRAL derive cost advantage from the integrated operations through lower dependence on import of technical grades which is the key input for manufacturing of formulations. BRL has established a strong presence in domestic and international markets. The group has synergetic operations through integrated and interlinked business processes of the group companies. BRL has made its presence in the value chain, right from production of technical grade pesticides to the varied formulations through direct and reverse integration.

In FY21, technical pesticides accounted for 68.29% (PY: 79.00%), intermediates accounted for 24.13% (PY: 14.89%) and formulation grades accounted for 6.81% (PY: 5.01%) of gross sales of BRL.

BRL product portfolio comprises of wide range of pesticides including insecticides, fungicides, herbicides, weedicides, intermediates and plant growth regulator to cater to all the pest problems of major crops grown in India including paddy, cotton, soybean, sugarcane, wheat, groundnut, maize, cumin, all vegetables and horticulture crops including their formulations & intermediates. BRL's product mix comprises 235 varieties of pesticides under technical grade, formulations and intermediates. Furthermore, BRL has around 107 international registrations and has been exporting its products (technical grade, intermediates and formulations) to more than 60 countries across the globe and is a preferred supplier for several MNCs for their global demand of several molecules. BRL also has two Government approved R&D Centres based in Bahadurgarh, Haryana and Dahej, Gujarat. Furthermore, the group has a strong Research and development (R&D) team registered with the Ministry of Science & Technology, Government of India.

Diverse geographic presence and reputed client base with long standing relations

BRL has a market leadership in many technical products including Lambda Cyhalothrin Technical, Metaphenoxy Benzaldehyde, Metribuzine Technical, Thiamethoxam (Insecticides) and Fipronil (Insecticides) among others for which BRL is a preferred supplier in the international markets. The contribution from Lambda Cyhalothrin Technical, Metaphenoxy, Metribuzine Technical is 35% to 40% of its total operating income (TOI). Furthermore, the company is supplying its product in both local as well as overseas market. BRL is having more than 107 international registrations and has been exporting its products to more than 60 countries across the globe. Domestic sales account for around 63.23% of total sales of BRL in FY21 (51.52% in FY20) and 60.40% in H1FY22 (H1FY21: 60.64%).

Furthermore, BRL has a large institutional customer base in the domestic market as well as in the international market with long standing relationship and low client concentration risk. In the international market, the group has strong presence in East Asia, South America, Europe and Middle East. Furthermore, few large customers like Syngenta and Sumitomo contribute to both the domestic and export pie of BRL. Though there is a product concentration risk as the top 10 products of BRL accounts for around ~70% of total sales of BRL in FY21 (PY: 71%) and around 62% of total sales of BRL in H1FY22 (H1FY21: 66%), but BRL's long-standing customer relationship with all the large institutional buyers for these products mitigates this risk for BRL to some extent. Furthermore, the major suppliers for the imported raw materials are located in China, Hong Kong, Singapore, and Belgium.

Comfortable financial risk profile & strong Capital Structure

Total operating income of the company had been consistently increasing from Rs.622.71 crore in FY17 to Rs.1,231.62 crore in FY20 with a CAGR of 25.53%. However, FY21 was affected due to the Covid-19 pandemic which affected the export sales of the company in Q1FY21 that form a large part of the company's top line. The company recorded a TOI of Rs.1,098.97 crore which is a decline in TOI by around 11% as compared to FY20. During H1FY22 (refers to period from April 01 to Sep 30), the company achieved a total operating income of Rs.526.77 crore (Rs.603.42 crore in H1FY21). H1FY22 registered some dip in total operating income and profitability amid impact of second covid wave and rise in commodity prices. However, with some lag the prices have been revised and commodity prices have also taken some correction in Q3FY22. Furthermore, dearth of containers has led to increase in freight cost for the company in H1FY22.

The capital structure of the company is strong marked by zero long-term debt as on March 31, 2021. Total debt of the company decreased from Rs.93.86 crore (including CC utilisation of Rs.27.34 crore, Long-term loans from the promoters of Rs.22.00 crore and unsecured loan from the promoters & related parties of Rs.44.51 crore) as on March 31, 2020 to Rs.58.45 crore (including CC utilisation of Rs.58.45 crore) as on March 31, 2021. The other debt coverage indicators were also healthy in FY21. The total debt to GCA & Interest coverage ratio stood at 0.31x (PY: 0.73x) & 63.45x (PY: 15.18x) respectively for FY21.

Liquidity analysis: Strong

The liquidity of BRL is strong. The company is generating healthy cash accruals with no long-term debt outstanding. BRL operates in a highly working capital-intensive industry marked by high inventory holding days and elongated collection period. During the 12-month period ending October 2021, average working capital utilization stood comfortable at 27.03% while the average of maximum utilization stood at 40.14%. The company has been generating healthy cash accruals and has comfortable liquidity. The company has free cash balance & liquid investments of around Rs.6.93 crore as on September 30, 2021. This apart, the company has unutilized working capital limits of Rs. 80-90 crore. Earlier in March 2021, the company had utilized large portion of free liquidity in the buyback of shares. The share buyback transaction was closed on April 12, 2021. The aggregate amount of the buyback was Rs. 107.50 crore excluding transaction expenses.

Key Rating Weaknesses

Working capital intensive nature of operations

The pesticide industry requires high working capital investment due to high Inventory and long credit period on sales. The commoditised nature of the products and seasonality factor (high demand during crop sowing seasons) makes the operations of the company highly working capital intensive. Around 60% sales for the whole year is done on the first half of the year for the BRL and most of the sales are done on a credit of around 90 days-120 days to its customers, resulting in high debtors in the

first half of the year. This results in high working capital requirement by BRL in first half of the year as compared to the second half of the year. Furthermore, due to the seasonal demand for pesticides, BRL is required to stack up variety of products as inventory in advance of the season resulting in high inventory holding period which is a common phenomenon across the pesticide industry. This increases the inventory holding cost. Furthermore, since pesticides are the last link in the agricultural operation, after having invested in seeds, fertilizers, etc., the farmers have little surplus money for purchasing pesticides. Therefore, providing credit is necessary to stimulate demand. Also, the company makes early payments to its suppliers on account of early payment discount from domestic suppliers and purchases on cash basis from foreign suppliers, resulting in average creditor period of around 18 days. Thus, due to such intrinsic nature of business, the group's working capital requirement continues to remain high. During FY21, the operating cycle of the group stood at 140 days in FY21 (PY: 132 days).

Highly dependent upon monsoon and climatic conditions

The pesticide industry derives its sales from the agriculture sector which is highly dependent upon monsoons as well as incidence of fungal/pest attack on crops. The sales and profitability of the pesticides industry depends largely on the prevalent agro-climatic conditions. However, BRL has its presence spread across all states as well as in multiple markets (domestic and international) which reduces the group's dependence on climatic conditions of a particular region.

Highly regulated and competitive nature of operations

The pesticides industry is marked by heavy fragmentation with the absence of any 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, BRL holds 235 registered products including both in technical grade as well as formulations. Furthermore, since BRL is into manufacturing of technical grade, the same requires compliance with stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms would have an adverse impact on the company's operations. However, with a commitment to promote health, safety and protect environment, BRL has equipped its units with in-house systems for treatment of solid, liquid and gaseous effluents. All these factors have facilitated the company to obtain certifications of ISO 14001:2004 for Environment Management System and OHS 18001:2007 for Occupational Health and Safety.

Exposure to foreign currency fluctuation risk

BRL is exposed to foreign currency fluctuation risk as the total export sales constitute 37% of total sales of the company in FY21 (PY: around 48%). BRL is also importing raw materials for manufacturing of technical grade pesticides. The mix of Domestic & imported raw material is 45:55 and 70% of the imported raw material is from China (the mix has reduced from 80% from China in FY18 to 70% in FY20 & FY21). However, the company purchases raw material from foreign markets on cash basis for around 80% of its purchases from foreign market. Further, 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 Rs.3.14 crore in FY21 (PY: gain of Rs.14.80 crore) on account of favourable exchange rate fluctuation.

Analytical approach: Standalone

Applicable criteria:

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Criteria on assigning Rating Outlook and Credit Watch to credit ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing Companies](#)

[Rating Methodology for Pesticide Companies](#)

About the Company

Bharat Rasayan Ltd. (BRL), incorporated in May 1989 by the current Chairman and Managing Director, Mr S. N Gupta for manufacturing of technical grade pesticides as a part of backward integration. BRL is the flagship company of the Bharat group which also comprises BR Agrotech Ltd (BRAL). BRL & BRAL has synergetic operations through integrated and interlinked business processes with both the companies being managed by the same management. BRL is engaged in the core business activities of manufacturing of technical grade pesticides (a B2B segment) which is a key ingredient for formulations and used for captive consumption to some extent, whereas BRAL is engaged in valued added product of formulations and packaging (Pet Bottles). BRL started its operations by setting up a manufacturing plant with installed capacity of 5,000 MTPA at Mokhra, Haryana in 1989 and later increased its production capacity in the year 2012 by setting up a plant of installed capacity of 12,000 MTPA at Dahej, Gujarat. BRL is one of the leading manufacturers of technical grade pesticides in India and is government recognized Star Export house.

Bharat Rasayan Limited (BRL) has executed a Joint Venture ("JV") Agreement on 18.02.2020, with Nissan Chemical Corporation, a company incorporated in Japan. The joint venture will operate through a company named 'Nissan Bharat Rasayan Private Limited', a company incorporated in India in which BRL has 30% share and NCC has 70% share. The total investment as per equity in this JV was Rs 150 crore which had to be done by both the sponsors in their shareholding

proportion and accordingly BRL has provided all the equity of Rs 45 crore out of its internal accruals in NBRPL. Nissan Chemical Corporation is a research-based Company and is one of the largest manufacturers of agrochemicals in Japan having global operations. The main rationale of NCC's investment is that they wanted to diversify and secure sources of active ingredients and decrease material shortages risk.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	1,231.62	1,098.97	526.77
PBILDT	246.54	247.17	103.93
PAT	157.64	164.47	66.71
Overall gearing (times)	0.23	0.08	0.19
Interest coverage (times)	15.18	63.45	49.55

A: Audited, UA: Un-Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: NA

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-Cash Credit		-	-	-	149.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	101.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)		-	4% p.a	7-364 days	50.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone - Proposed)		-	-	-	50.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			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-Cash Credit	LT	149.00	CARE AA-; Stable	1)CARE AA-; Stable (20-Dec-21)	1)CARE AA-; Stable (30-Dec-20)	1)CARE AA-; Stable (27-Dec-19)	1)CARE AA-; Stable (31-Dec-18)
2	Non-fund-based - ST-BG/LC	ST	101.00	CARE A1+	1)CARE A1+ (20-Dec-21)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (27-Dec-19)	1)CARE A1+ (31-Dec-18)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (22-Dec-20)	1)CARE A1+ (27-Dec-19)	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (19-Jun-18)
4	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	1)CARE A1+ (20-Dec-21)	1)CARE A1+ (22-Dec-20)	1)CARE A1+ (27-Dec-19)	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (19-Jun-18)
5	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1+				

* Long Term / Short Term

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

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

Sr. No	Name of 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: Bank Lender Details for this Company: NA

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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