Punjab Chemicals and Crop Protection Limited (Revised)

August 30, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	49.54 (Reduced from 55.84)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	20.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	35.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**104.54** **(₹ One hundred four crore and fifty-four lakhs only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of ratings on the bank facilities of Punjab Chemicals and Crop Protection Limited (PCCPL) takes into account significant growth in total operating income and profitability in FY22 (FY refers to the period April 01 to March 31), comfortable capital structure and revenue visibility on the back of orders in hand. The ratings continue to draw strength from experienced promoters, PCCPL's presence in Contract Research and Manufacturing (CRAMs) business and recent uptrend witnessed by agrochemical sector.

The rating strengths are however offset by revenue and client concentration risk, exposure to risks intrinsic in agrochemical sector, 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 ₹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

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, has more than 24 years' experience in Operations Management in large Petrochemicals and Oleochemicals sector. Dr. S. Sriram, (CFO), is a PhD in supply chain management and has 34 years of experience including 16 years of experience in UPL Limited.

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

Significant growth in scale along with strong profitability: During FY22, PCCPL witnessed significant growth of 37.46% in total operating income (TOI) over FY21. The growth was driven by healthy demand in agrochemicals and orders in hand under contract manufacturing arrangement. Further, addition of new molecules (3 molecules in FY22) and clientele resulted in scaling up at better pace. Stellar operating profit, grown by 45.14% compared to previous year despite abnormal price hikes of chemicals (raw materials) demonstrates strong business structure. The gross margin though dipped to 37.91% in FY22 as against 39.07% in FY21, the PBILDT margins for the year remained stable at 15% in FY22 similar to previous years on account of pass through in majority of contracts. During Q1FY23, the company has demonstrated healthy performance with TOI of ₹272.12crore, PBILDT of ₹35.57crore and PAT of ₹20.26crore. The performance is expected to remain strong in remaining part of the fiscal FY23 given orders in hand and uptick in the demand of agrochemicals. The profit margins are expected to sustain aided by commercialization of certain high margin products in FY22-23.

Comfortable capital structure: The company has comfortable capital structure marked by overall gearing at 0.42x as on March 31, 2022, as against 0.61x as on March 31, 2021. Higher accretion of profits to net worth in conjunction with repayment of debt has resulted into better leverage position. Further on account of improved profit levels, the total debt/Gross Cash Accruals (GCA) has also improved to 0.92x in FY22 as against 1.29x in FY21. The leverage profile is expected to remain comfortable in the absence of any significant debt funded capex plans of the company.

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: Top five products driving revenue of PCCPL contributed around 40% (PY: 55%) of the total sales in FY22. Further, the top 5 customers contributed nearly ~72% to total operating income in FY22 (similar to FY21). In addition, major sales to single foreign market, Europe also exposes PCCPL's business to geographical concentration risk. Notwithstanding, expansion in existing product line, addition of new molecules and new clientele is expected to dilute the concentration risk gradually in the coming years.

Exposure to risks intrinsic in agrochemical sector: 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.

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 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 (~60% of sales). The major export destinations are Europe, Japan, Netherlands, Belgium, 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 in FY23 as against the external repayment obligations of ₹12.41crore. Working capital limits to the tune of ₹20 crore remained largely utilized during last 12 months ending July 2022. Further during Q4FY22, the company had also availed adhoc limit of ₹10crore to meet the working capital requirements. The company has free cash and bank of ₹9.58 crore as on June 30, 2022.

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

Policy on default recognition
Consolidation
Financial Ratios – Nonfinancial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

Incorporated in November 1975, Punjab Chemicals and Crop Protection Limited (PCCPL) was promoted by Shri S.D. Shroff in association with Excel Industries Ltd 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 name of the company was changed to PCCPL with all its divisions – Agrochemicals, Pharmaceuticals, Intermediates, Chemicals & International Trading, under one umbrella. The company specialises in agrochemicals which are key revenue driver for the company (70-80%). It is into Contract Research and Manufacturing (CRAMS) largely for agrochemicals. CRAMS accounted approximately ~60-70% of the revenue over the years.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (U/A)
Total operating income	676.41	930.57	272.27
PBILDT	94.43	138.69	35.57
PAT	50.54	80.82	20.26
Overall gearing (times)	0.54	0.39	NA
Interest coverage (times)	7.66	11.57	10.34

A: Audited; U/A: Un-audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Dec 2027	49.54	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 for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	49.54	CARE BBB+; Stable	-	1)CARE BBB+; Stable (23-Nov-21) 2)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 A2 (23-Nov-21) 2)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 A2 (23-Nov-21) 2)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	-	1)CARE A2 (23-Nov-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available.

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
4	Non-fund-based - ST-Letter of credit	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 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.

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