

Bhagiradha Chemicals and Industries Limited
 September 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2.40	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Assigned
Long Term Bank Facilities	50.72 (Enhanced from 45.46)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed, removed from credit watch
Short Term Bank Facilities	28.50	CARE A3 (A Three)	Reaffirmed, removed from credit watch
Total Facilities	81.62 (Rs. Eighty-One Crore and Sixty-Two Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The removal of credit watch and reaffirmation in the ratings assigned to the bank facilities of Bhagiradha Chemicals and Industries Limited (BCIL) is on account of receiving satisfactory compliance certificate from APPCB (Andhra Pradesh Pollution control Board) for regular resumption of plant operations during March, 2020. The ratings continue to derive strength from experience promoters with long track record of operations, reputed client base, established Research & Development facilities, comfortable capital structure, healthy debt coverage indicators and adequate liquidity position. The ratings further factor, successful completion of CAPEX for backward integration of Azoxystrobin and setting up new product line for Fipronil. The rating strengths are however partially offset by, production plant being exposed to strict regulatory compliance, volatility in raw material prices impacting profitability margins, dependency of agrochemical demand on vagaries of nature. The ratings also take cognizance of decline in operational and financial performance in FY20 (refers to period between April 01- March 31) albeit stabilized in Q1FY21 and recently entered MOU with government of Karnataka for setting up a manufacturing plant in Kadechur Industrial Area.

Rating Sensitivities**Positive Factors**

- ✓ Increase in TOI to more than Rs 375 crore while maintaining a PBILDT margin of 10% or more
- ✓ Ability of the company to successfully implement the new plant at Karnataka without significantly deteriorating its capital structure.
- ✓ Ability of the company to successfully replace the products that fall under restricted list as per the draft Government Order.

Negative Factors

- ✗ Further interruption or halt in operations resulting in significant production loss.
- ✗ Any unprotected increase in the total debt levels leading to deterioration of overall gearing ratio to above 1x in future.

Outlook: Negative

Negative outlook is on account of weakening of operational and financial performance of the company, which if continues may have adverse impact of the financial risk profile of the company. Also, the company has significant capital commitment towards the CAPEX with respect to the recently entered MOU with Karnataka government and successful implementation of the same remains critical from rating perspective. The outlook may be revised to 'stable' if the company is able to demonstrate improvement in its operational and financial performance in the coming quarters.

Detailed description of the key rating drivers**Key Rating Strengths:****Experienced promoter group with long track record of operations**

BCIL is managed by Mr. S. Chandrasekhar, aged about 43 years who is presently the Managing Director of the company. Mr. Chandrasekhar has completed his B. Tech in Chemical Engineering from Osmania University and has done M.S. in Chemical Engineering from University of Illinois, Chicago, USA. He has more 16 years of rich experience in development of process technologies for synthetic chemicals and design of chemical plants. The management is ably assisted by an experienced team of professionals down the line.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Strong in house Research and Development:

BCIL has an established and continuously upgraded R&D division located at the factory premises, which is recognized by the Ministry of Science & Technology, Government of India. Given the huge competition from the domestic and large MNC's, R&D activity plays an important role for the players participating in the pesticide industry. During the FY20, the company's R&D department has successfully completed the process development for Fipronil. BCIL would be the second company in India to have developed completely backward integrated process.

Established product line

Pesticides are broadly classified into insecticides, herbicides, fungicides, rodenticides etc. depending on the type of pest they control. BCIL manufactures insecticides, herbicides and fungicides (technical as well as formulations) and has a product portfolio of over 13 products with 9 more products under development. The major products of BCIL include Chloropyriphos, Chloropyriphos Methyl, Triclopyr, Azoxystrobin, and Fipronil.

Comfortable capital structure and healthy debt coverage indicators

BCIL maintains a conservative capital structure with lower reliance on outside borrowings vis-à-vis its net worth base. The overall gearing and long term debt equity ratio remained satisfactory at 0.32x and 0.09x respectively as on March 31, 2020. Also, the debt coverage indicators remained satisfactory with a PBILDT interest coverage ratio of 3.24x. Although, total debt/GCA deteriorated in FY20 to 3.08x (FY19: 1.81x), primarily because of significant decline in the GCA levels with 100 days of production loss during the year.

Successful completion of capex

During FY20, the company has built a process line for manufacture of Fipronil and also completed its backward integration for Azoxystrobin. Backed by "Aatmanirbhar Bharat" scheme, BCIL expects the demand for Fipronil to increase in the domestic market as well. Further, BCIL also completed the process line for Azoxystrobin which decreases the dependency on imports for raw materials, going forward.

Clearance from APPCB albeit COVID induced lockdown:

On March 12, 2020, BCIL obtained clearance from the pollution control board of Andhra Pradesh (APPCB) after complying with all the directives to the satisfaction of the board (Cost incurred for plant up-gradation: Rs 8.30 cr). However, with nationwide lockdown announced in the last week of March, the operations were again halted, nonetheless, the company resumed operations from April 2, 2020 with special permission from the authorities albeit operated at reduced capacity levels.

Key rating weaknesses**Decline in operational and financial performance in FY20**

During FY20 at the back of stop in production of the unit owing to APPCB orders and lock down imposed for Covid-19 resulted in production loss of 100 days. Accordingly, the capacity utilization levels (CU) decreased from 81.96% in FY19 to 60.00%. in FY20. Further,

Total operating income for the company declined significantly in FY20 by 35% y-o-y. Also, the company reported net losses during Q3FY20 and Q4FY20 which resulted in lower profits during the year. Nevertheless, with satisfactory compliance of directives issued by APPCB and resumption of regular operations, the company has shown signs of revival in Q1FY21.

Production plant and products being exposed to strict regulatory compliance

BCIL has high exposure towards government regulations by Indian government as well as importing and exporting countries. As usage/manufacturing of an unstable/ineffective pesticide will not only damage the crop for a season but will also have adverse impact on the environment. Government of India vide draft gazette notification dated May 18, 2020 has placed 27 insecticides/pesticides into a banned category, BCIL manufactures two products of this list which contribute significant proportion to the top line of the company. . The notification is however a draft version and is subjected to revision in the final order. Although, the company is ready with the alternate products but Regulations/Announcements such as these can have an adverse impact on both operational and profitability levels of the company.

Volatility in raw material prices impacting profitability margins

Raw material cost is the major cost element for the company, the prices of the major inputs (chemicals compounds) are volatile in nature which impact the profitability of the company given the limited pricing flexibility in view of huge competition in the industry, particularly given the cheap exports from China. However, with establishment backward integration plant for certain chemicals, the company is likely to partially overcome this challenge, going forward.

Proposed Capex for the Karnataka unit

BCIL has signed an MOU with the Government of Karnataka during Feb, 2020 for setting up manufacturing unit in Kadechur industrial area, Yadgir Dist., Karnataka, through its wholly owned subsidiary. The project cost is estimated to be around Rs 350 crore which is envisaged to be completed in phased manner from FY21-FY26. BCIL has significant capital commitment towards the said project. The successful and timely completion of the project and any requirement of further financial assistance from BCIL beyond the committed level remains critical from rating perspective.

Industry Outlook

Insecticides dominate the Indian crop protection market and form almost 53% of the domestic agrochemicals market. Herbicides are, however, emerging as the fastest growing segment. Delay in the start of the monsoons in 2019 made producers postpone their product launches has been instrumental in the fall of the production of Technicals. India mainly has exported agrochemicals to Brazil (15%), US (10%), Vietnam (6%), Bangladesh (6%), Iran (3%), France (3%) and Indonesia (3%). Delay in arrival of the monsoons during Q1-FY20 prompted many farmers to resort to shorter duration crops or opt for shorter duration variety in that particular crop (for example, in case of paddy, farmers may have migrated to a shorter duration variety of paddy or cultivators would have migrated from maize to bajra).

Liquidity: Adequate

The liquidity position for the company is adequate with an average working capital utilization of 48% for the past twelve months ended June, 2020. BCIL has an unutilized CC limit of Rs. 7.50 crore. Further, as on March 31, 2020, the company had a free cash and bank balance of Rs 2.75 crore. BCIL has availed Covid loan of Rs 1.40 crore in case of any unforeseen requirements. One of the lenders have extended moratorium to the company till July,20 which was cleared by BCIL in Aug, 20 and thereafter the company has not availed moratorium for any of its bank facilities.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios –Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology -Manufacturing Companies](#)

[Rating Methodology -Fertilizer Companies](#)

About the Company

Bhagiradha Chemical Industries Limited (BCIL) was incorporated as a public limited company under the Companies Act, 1956, at Hyderabad in the State of Andhra Pradesh with the objective of setting up a unit for carrying the production of Plant Protection Chemicals. BCIL has set up its manufacturing facility at Cheruvukommupalem Village, Ongole Mandal, Prakasam District, Andhra Pradesh, in an area of 36.50 acres and commenced commercial production in 1995-96. The company has filed 11 process patents over the last seven years.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	384.36	246.54
PBILDT	41.68	17.79
PAT	18.29	6.51
Overall gearing (times)	0.48	0.36
Interest coverage (times)	5.25	3.24

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2026	14.22	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	36.50	CARE BBB-; Negative
Non-fund-based - ST-Letter of credit	-	-	-	27.00	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	0.25	CARE A3
Fund-based - ST-Standby Line of Credit	-	-	-	1.25	CARE A3
Fund-based - LT-Working Capital Demand loan	-	-	-	2.40	CARE BBB-; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	14.22	CARE BBB-; Negative	-	1)CARE BBB- (Under Credit watch with Negative Implications) (18-Feb-20) 2)CARE BBB (Under Credit watch with Negative Implications) (12-Nov-19) 3)CARE BBB; Stable (08-Jul-19) 4)CARE BBB; Stable (03-Jul-19)	1)CARE BBB-; Stable (14-Sep-18)	1)CARE BB+; Stable (23-Feb-18) 2)CARE BB-; Stable (07-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	36.50	CARE BBB-; Negative	-	1)CARE BBB- (Under Credit watch with Negative Implications) (18-Feb-20) 2)CARE BBB (Under Credit watch with Negative Implications) (12-Nov-19) 3)CARE BBB; Stable	1)CARE BBB-; Stable (14-Sep-18)	1)CARE BB+; Stable (23-Feb-18) 2)CARE BB-; Stable (07-Apr-17)

						(08-Jul-19) 4)CARE BBB; Stable (03-Jul-19)		
3.	Non-fund-based - ST-Letter of credit	ST	27.00	CARE A3	-	1)CARE A3 (Under Credit watch with Negative Implications) (18-Feb-20) 2)CARE A3+ (Under Credit watch with Negative Implications) (12-Nov-19) 3)CARE A3+ (08-Jul-19) 4)CARE A3+ (03-Jul-19)	1)CARE A3 (14-Sep-18)	1)CARE A4+ (23-Feb-18) 2)CARE A4 (07-Apr-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	0.25	CARE A3	-	1)CARE A3 (Under Credit watch with Negative Implications) (18-Feb-20) 2)CARE A3+ (Under Credit watch with Negative Implications) (12-Nov-19) 3)CARE A3+ (08-Jul-19) 4)CARE A3+ (03-Jul-19)	1)CARE A3 (14-Sep-18)	1)CARE A4+ (23-Feb-18) 2)CARE A4 (07-Apr-17)
5.	Fund-based - ST-Standby Line of Credit	ST	1.25	CARE A3	-	1)CARE A3 (Under Credit watch with Negative Implications) (18-Feb-20) 2)CARE A3+ (Under Credit watch with Negative Implications) (12-Nov-19) 3)CARE A3+ (08-Jul-19) 4)CARE A3+ (03-Jul-19)	1)CARE A3 (14-Sep-18)	1)CARE A4+ (23-Feb-18)
6.	Fund-based - LT-Working Capital Demand loan	LT	2.40	CARE BBB-; Negative	-	-	-	-

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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Standby Line of Credit	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

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

Contact us

Media Contact

Mradul Mishra

Contact no. : +91-22-6837 4424

Email ID mradul.mishra@careratings.com

Analyst Contact

Group Head Name –Nivedita Ghayal

Group Head Contact no. : +91-40-40102030

Group Head Email ID nivedita.ghayal@careratings.com

Business Development Contact

Name: Ramesh Bob

Contact no. : +91 90520 00521

Email ID: ramesh.bob@careratings.com

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