

## Bhagiradha Chemicals & Industries Limited

February 18, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	45.46	<b>CARE BBB-;</b> <b>(Under Credit Watch with</b> <b>Negative Implications)</b> <b>(Triple B Minus)</b>	<b>Revised from CARE BBB</b> <b>(Under Credit Watch with</b> <b>Negative Implications)</b>
Short-term Bank Facilities	28.50	<b>CARE A3</b> <b>(Under Credit Watch with</b> <b>Negative Implications)</b> <b>(A Three)</b>	<b>Revised from</b> <b>CARE A3+</b> <b>(Under Credit Watch with</b> <b>Negative Implications)</b>
<b>Total facilities</b>	<b>73.96</b> <b>(Rupees seventy three crore</b> <b>and ninety six lakh only)</b>		

Details of facilities in Annexure-1

*CARE continues the ratings assigned to the bank facilities of Bhagiradha Chemicals and Industries Limited (BCIL) on 'Credit watch with negative implications' in view of significant deterioration in the company's financial performance during Q3FY20 led by temporary discontinuation of production activity at the company's manufacturing unit on account of stop production order issued by the pollution control board of Andhra Pradesh (APCCB). The unit will not be able to resume operations until the company complies with the norms of APCCB and gets fresh order for recommencement of operations. The loss of production activity for a longer period, may have significant bearing on the financial profile of BCIL. CARE will be monitoring the above developments and would take a view when the exact implications of the same are clear.*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Bhagiradha Chemicals & Industries Limited (BCIL) are on account of significant deterioration in the company's financial performance during Q3FY20 (refers to the period from October 2019 to December 2019) due to APCCB's stop order for production activities. The ratings are, nevertheless, backed by improved operational performance aided by diversified product mix during FY19 (refers to the period April 01 to March 31), improved financial performance during FY19, healthy debt protection metrics and capital structure along with adequate liquidity position of the company marked by improvement in the company's operating cycle during the year. Further, the ratings continue to derive comfort from long-standing experience of the promoters in the agrochemical industry, reputed client base, established Research & Development facilities in consort with stable industry growth prospects in the near term. The rating strengths are however, partially offset by vulnerability of profit margins to volatility in raw material prices, dependency on monsoon and inclement climatic conditions and inherent seasonality of the industry, exposure to foreign exchange fluctuation risk, client concentration risk and working capital intensive nature of operation.

The ability of the company to continue to expand the scale of operation and improve profitability amidst intense competition and manage the working capital requirements efficiently are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key rating Strengths

**Improved operational performance aided by diversified product mix during FY19:** The capacity utilization of BCIL improved from 76.74% in FY18 to 81.96% in FY19 with the re-commencement of operations in Block III during the year post the fire accident in May 2017. The company achieved production of 2,664 MT in FY19 against 2,494 MT in FY18. Company has been changing its product mix, introducing new products and expanding its geographical reach depending upon the demand scenario in domestic as well as export markets which has helped the company in improving its profitability margins y-o-y.

**Significant improvement in financial performance during FY19:** During FY19, the company had witnessed a twofold growth in the total operating income (TOI) during FY19 at the back of increased sales volume coupled with increased

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

off-take from its key clients. In line with growth in TOI coupled with improved sales realizations of company's key high value-added products as well as decrease in cost of sales brought about by better absorption of expenses at operating level, the PBILDT margin improved by 415 bps y-o-y to 10.84% during FY19. Resultantly, the company reported a healthy net profit of Rs. 18.29 crore (PAT margin of 4.76%) in FY19 against net loss of Rs. 1.30 crore (adjusted PAT: Rs. 2.52 crore) during FY18.

**Experienced promoters with established track record in the Indian Agrochemical Industry:** BCIL has established its presence in the agrochemical industry for more than two decades, backed by sound credibility with strong linkages across various industry segments. Mr. D Sadasivudu, promoter, is a qualified chemical engineer from University of Salford, England and has vast experience of over two decades in the agrochemical industry. The company is currently managed by Mr. S Chandra Sekhar (MD), an M.S in Chemical Engineering from University of Illinois, Chicago, US and has more than 15 years of experience in synthesis of chemicals and design of Chemical Plants. The management is ably supported by a team of qualified professionals down the line.

**Shift in focus of sales from export to domestic market aided by a marquee clientele:** BCIL, by virtue of its long presence in the industry and well-established industry linkages, has established a reputed client base both in the domestic as well as international markets. The company's export sales increased from nearly 30% of sales in FY18 to 51% of sales in FY19 with new overseas clients added in FY19 based out of Portugal and Germany. BCIL achieves better profitability margins from export sales made to clients based in Brazil (36.55% of export sales in FY19), Germany (16.56% of export sales in FY19), Indonesia (12.14% of export sales in FY19) and Portugal (11.97% of export sales in FY19); which are the highest revenue contributors for BCIL.

**Established and modernizing Research & Development facilities:** BCIL has an established R&D division located at the factory premises which is recognized by the Ministry of Science & Technology, Government of India (GoI). The company has also entered into confidentiality agreements with various MNC's based out in Israel and Japan for jointly developing process technology for certain new products in FY19.

**Comfortable capital structure in FY19:** The company has witnessed an improvement in the capital structure with debt-equity below unity as on March 31, 2019. The Overall Gearing improved from 0.62x as on March 31, 2018 to 0.48x as on March 31, 2019 on account of improvement in tangible net worth brought about of equity infusions coupled with scheduled repayment of term loans. Additionally, the debt protection indicators witnessed improvement in FY19 with interest coverage improving from 1.78x in FY18 to 5.25x in FY19 aided by healthy PBILDT level, despite higher finance costs.

**Improved operating cycle in FY19 albeit working capital intensive nature of operations:** The company operates in a working capital intensive industry wherein the requirement of working capital remains high. Nevertheless, the working capital cycle of BCIL has improved from 116 days during FY18 to 61 days during FY19 on account of improvement in inventory days from 214 days in FY18 to 82 days in FY19 backed by lesser stock of finished goods in lieu of higher sales in Q4FY19 with introduction of new products during the period.

**Adequate Liquidity position:** BCIL has an adequate liquidity position which witnessed improvement during FY19 with sufficient cushion in accruals of Rs. 33.95 crore during FY19 against repayment obligations of Rs. 4.98 crore in FY20 and moderate cash balance of Rs. 3.03 crore as on March 31, 2019. The working capital utilization level was comfortable at 67.45% during the past 12 months ended May 2019. The current ratio and quick ratio stand at 1.15x and 0.73x respectively as on March 31, 2019.

**Stable Industry Outlook:** The Pesticide Industry in India is growing rapidly and is marked by the presence of large number of unorganized players (technical grade manufacturers and formulators). CARE expects India's agrochemical industry, in terms of active ingredient (technical grade) production to record a 3.7% compounded growth rate till FY22. Technical grade agrochemicals production is to be 246 (000' tonnes) by FY22. The key growth drivers are India's capability in low cost manufacturing, availability of technically trained manpower, seasonal domestic demand, better price realization globally, strong presence in generic pesticide manufacturing.

**Key rating Weaknesses**

**Significant deterioration in financial performance during Q3FY20 and status of APPCB order:** The financial performance of the company has significantly deteriorated during Q3FY20, owing to discontinuation of production activity in the company's manufacturing plant for about a period of 2 months (from September 12, 2019 to November 14, 2019) with total operating income and profits for Q3FY20 being adversely impacted. The company reported cash loss of Rs. 1.37 crore in Q3FY20. The company, after complying with the directions of the board, had received a temporary revocation of the stop production order from the board in November 2019. However, due to lack of compliance for certain parameters as per the order by APPCB, the company received a 'stop production order' in February 2020 with immediate effect.

Nevertheless, BCIL has set up an Effluent Treatment Plant incurring nearly Rs. 7-8 crore for complying with the orders set forth by the APPCB. The impact of the aforementioned order on the company's performance will be critical from a credit perspective.

**Moderate client concentration risk:** Despite addition of new clients to its portfolio in FY19, the revenue profile of BCIL is concentrated to few clients with the top 10 clients contributing nearly 82% of the total sales in FY19 (63% of total sales in FY18). Nevertheless, the company has been exploring to acquire new markets in order to mitigate the risk of client concentration as well as geographical concentration in future.

**Dependency on monsoon and climatic conditions and inherent seasonality of the industry:** 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. Further, given that the demand is dependent on monsoon, the industry (in India) is characterised by seasonality. To address the seasonality issue, however, the company has diversified and increased its sales into the export markets.

**Vulnerability to volatility in raw material prices:** Raw material cost is the major cost element for the company with an average contribution of about 79% to the cost of sales in the last three years. The prices of the major inputs (chemicals compounds) are volatile in nature which may impact the profitability of the company given the limited pricing flexibility in view of huge competition in the industry, particularly cheap exports from China. BCIL procured about 60% of the total raw material requirement indigenously during FY19 and about 40% were imported from international markets (majorly from China and USA) in a bid to decrease the dependency for raw materials from China.

**Exposure to foreign exchange fluctuation risk:** The company has significant export and import transactions which subjects it to risk associated with volatility in the exchange rates. However, the company is a net exporter with exports accounting for about 51% of the sales in FY19 vis-à-vis imports which accounted for about 40% of the raw material consumption during the same period. However, the company booked forex loss of Rs. 0.98 crore during FY19 (forex gain of Rs. 0.36 crore in FY18).

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE criteria for rating short term instruments](#)

[CARE's methodology – Manufacturing companies – Pesticide](#)

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

**About the Company**

Bhagiradha Chemicals & Industries Ltd (BCIL), incorporated in July 1993, has been promoted by late Mr. S. Koteswara Rao and Mr. D Sadasividu. The company has established its presence in the agrochemical industry and is engaged in manufacturing of pesticides (Technical - Herbicides, Insecticides, Fungicides, plant growth regulator and intermediates) at its three blocks (total installed capacity of 3,250 MTPA) located at Cheruvukommupalem, Ongole district, Andhra Pradesh. The major products include Chloropyriphos – Technical (Tech), Fluroxypyr – Tech, Triclopyr – Tech, Imidacloprid – Tech and Azoxystrobin – Tech. The company constantly expands its product profile by adding new products to its ambit. BCIL launched two value added products in H2FY19 namely, M-175 and Sulfosulfuron. The

company also has an established Research & Development center located in the factory premises which is recognized by the Ministry of Science & Technology, Government of India. The manufacturing facilities are accredited with quality certifications viz. ISO 9001:2008 for quality system, ISO 14001:2004 for environmental management system and OHSAS 18001:2007 for occupational health and safety management. BCIL is a public limited company listed on the BSE and the promoters hold an aggregate 24.90% stake in the company as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (Audited)	FY19 (Published)
Total operating income	184.03	384.36
PBILDT	12.31	41.68
PAT	2.52	18.29
Overall gearing (times)	0.62	0.48
Interest coverage (times)	1.78	5.25

**Status of non-cooperation with previous CRA: NA**

**Any other information:** Not Applicable

**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	-	-	July 2022	8.96	CARE BBB- (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	36.50	CARE BBB- (Under Credit watch with Negative Implications)
Non-fund-based - ST-Letter of credit	-	-	-	27.00	CARE A3 (Under Credit watch with Negative Implications)
Non-fund-based - ST-Bank Guarantees	-	-	-	0.25	CARE A3 (Under Credit watch with Negative Implications)
Fund-based - ST-Standby Line of Credit	-	-	-	1.25	CARE A3 (Under Credit watch with Negative Implications)

## 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	8.96	CARE BBB- (Under Credit watch with Negative Implications)	1)CARE BBB (Under Credit watch with Negative Implications) (12-Nov-19) 2)CARE BBB; Stable (08-Jul-19) 3)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- (Under Credit watch with Negative Implications)	1)CARE BBB (Under Credit watch with Negative Implications) (12-Nov-19) 2)CARE BBB; Stable (08-Jul-19) 3)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)	-
3.	Non-fund-based - ST-Letter of credit	ST	27.00	CARE A3 (Under Credit watch with Negative Implications)	1)CARE A3+ (Under Credit watch with Negative Implications) (12-Nov-19) 2)CARE A3+ (08-Jul-19) 3)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 (Under Credit watch with Negative Implications)	1)CARE A3+ (Under Credit watch with Negative Implications) (12-Nov-19) 2)CARE A3+ (08-Jul-19) 3)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 (Under Credit watch with Negative Implications)	1)CARE A3+ (Under Credit watch with Negative Implications)	1)CARE A3 (14-Sep-18)	1)CARE A4+ (23-Feb-18)	-

					Implications) (12-Nov-19) 2)CARE A3+ (08-Jul-19) 3)CARE A3+ (03-Jul-19)			
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**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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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