

Bharat Rasayan Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Remarks
Long term Bank Facilities	106.32	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	40.00	CARE A1+ (A One Plus)	Reaffirmed
Total	146.32 (Rs. One Hundred Forty Six crore and Thirty Two lakh only)		
Commercial Paper (CP) Issue	20.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper (CP) Issue*	60.00	CARE A1+ (A One Plus)	Reaffirmed

*carved out of sanctioned working capital limits of the company
 Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

While arriving at the ratings of Bharat Rasayan Limited, CARE has taken a combined view of Bharat Rasayan Limited, B.R Agrotech Limited and Bharat Insecticides Limited due to integrated and interlinked business under the same management. These entities are hereinafter collectively referred to as Bharat group.

The reaffirmation of the ratings assigned to the bank facilities and commercial paper issue of Bharat Rasayan Limited (BRL) continue to derive strength from the long track record of promoters in the pesticides industry and integrated operations of the group marked by its presence in the entire value chain of the pesticides. The ratings further factors in wide distribution network with established brands and large number of product registration of the group and its comfortable financial risk profile marked by strong capital structure and debt coverage indicators.

These rating strengths are, however, partially offset by working capital intensive nature of operations of the group and its exposure to foreign currency fluctuation risk. The ratings further takes into consideration highly regulated and competitive nature of operations and high dependence of the group's operations on climatic conditions.

Going forward, the ability of the group to increase its scale of operations with better profitability margins while sustaining its capital structure as well as effectively managing its working capital cycle would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of promoters in the pesticides industry

The group is one of the leading manufacturers of technical grade pesticides in India and has been engaged in manufacturing of pesticides for a long period with promoters' experience spanning more than three decades. Mr. S.N. Gupta, Chairman and Managing Director (MD) of BRL and director of BIL, is a post graduate 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 and director of BIL, is a graduate in commerce and has more than 38 years of experience. He looks after banking, finance, taxation, accounts and administration. Further, Mr. R.P. Gupta, whole time director of BRL and BRAL and director of BIL, has over 30 years of experience in the

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

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 related functional areas.

Integrated operations offering diversified product mix

The group has its presence throughout the value chain, right from manufacturing of technical grade pesticides up to the formulations by way of backward integration. The group derives cost advantage from the integrated operations through lower dependence on import of technical grades which is the key input for manufacturing of formulations. The composition of sales in terms of volumes (quantity sold) is dominated by formulations which account for 70.39% of the total sales volume in FY17 (PY: 69.02%). However, in terms of value, formulations accounts for 52.18% of total sales value in FY17 (PY: 48.32%) and technical grade & intermediates combined accounts for 43.51% of total sales value in FY17 (PY: 46.64%).

The group's 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. The group's product mix has more than 200 varieties of pesticides under technical grade, formulations and intermediates.

Wide marketing and distribution network

The group has a market leadership in many technical products including Meta Phenoxy Benzaldehyde, Clodinafop Propargyl, Lambda Cyhalothrin and Thiamethoxam. The top 10 products of BRL accounts for around 70% of total net sales of the company in FY17 (PY: 77%). The group is supplying its products in both local as well as overseas market. Domestic sales account for around 85% of total combined gross sales of Bharat group in FY17. The group has a network of approximately 4,300 dealers and distributors and 40,000 retailers for supplies spread across the country and have 26 branches in all the operating states.

Further, the group has a large institutional customer base in the domestic market with long standing relationship and low client concentration risk. In the international market (which accounted for around 15% of the group's total combined gross sales in FY17), the group exports to 60 countries and has strong presence in East Asia, South America, Europe and Middle East. The top 5 customers of the BRL excluding the group companies (BIL & BRAL) accounts for Rs. 117.98 crore of sales in FY17 (PY: Rs. 73.81 crore) which is around 25% of total sales of the company excluding sales to group companies (around 22% of total sales in FY16).

Comfortable financial risk profile

During FY17, Bharat group reported total combined operating income of Rs. 1112.81 crore as against total combined operating income of Rs. 862.33 crore in FY16, registering y-o-y increase of around 29% on account of increase in sales of formulations segment of the group by around 40% in FY17 over FY16 as a result of good monsoon in the calendar year 2016. Domestic sales of the group has increased by around 31% and its export sales has increased by around 32%.

Overall gearing of the group has improved from 0.32x as on March 31, 2016 to 0.19x as on March 31, 2017 on account of prepayment of long term debt of Rs. 3.75 crore along with scheduled repayment of Rs. 15.22 crore along with accretion of profits to the networth. Interest coverage ratio increased from 10.69x in FY16 to 11.56x in FY17 on account of better profitability of the group in FY17 as compared to FY16.

Key Rating Weaknesses

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 group has its presence spread across 22 states as well as in multiple markets (domestic and international) which reduces the group's dependence on climatic conditions of a particular region.

Working capital intensive nature of operations

The commoditised nature of the products and seasonality factor (high demand during crop sowing seasons) makes the operations of the group highly working capital intensive. The group 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 pesticide industry. Further, 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. Thus, due to such intrinsic nature of business, the group's working capital requirement continues to remain high.

In FY17, collection period of Bharat group improved to 73 days from 82 days in FY16 on account of long standing relationships with their customers resulting in less credit days. Further, although BRL receives credit period of 90 days from its suppliers, the company makes early payments to its suppliers on account of early payment discount, resulting in average creditor period of around 24 days.

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, Bharat group holds more than 200 registered products including both in technical grade as well as formulations.

Exposure to foreign currency fluctuation risk

Bharat Group is exposed to foreign currency fluctuation risk as the total export sales of the BRL constitutes 25.39% of total sales of the company in FY17 (PY: 27.85) and the total export sales of the group (combined) forms 14.85% of total sales of the group in FY17 (PY: 14.73%). The BRL exports to 27 countries in FY17 with majority of the sales to China (17% of total export sales) and Singapore (18% of total export sales). Therefore, profitability margins of the company remains susceptible to any adverse movement in the foreign currency. BRL is also importing raw materials for manufacturing of technical grade pesticides. Imports formed around 50% (PY: 54%) of total raw material requirements of BRL and with raw material cost forming around 86% (PY: 79%) of total expenses of the company. However, the foreign exchange fluctuation risk is reduced partially on account of natural hedge available in the form of export sales by the company.

Analytical approach:

While arriving at the ratings of Bharat Rasayan Limited, CARE has taken a combined view of Bharat Rasayan Limited, B.R Agrotech Limited and Bharat Insecticides Limited due to integrated and interlinked business under the same management.

Applicable Criteria

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

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

[CARE's methodology for Short-term Instruments](#)

[CARE's Criteria for Factoring Linkages in Ratings](#)

[CARE's methodology for manufacturing companies](#)

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

[CARE's methodology for Pesticide sector](#)

About the Company

Bharat Rasayan Ltd. (BRL; L24119DL1989PLC036264) was incorporated in May 1989 for manufacturing of technical grade pesticides. BRL is the flagship company of the Bharat group which is promoted by Mr. S.N. Gupta, Mr. M.P. Gupta, Mr. R.P. Gupta and their family members. The group also includes BR Agrotech Ltd (BRAL, rated 'CARE AA-; Stable', 'CARE A1+') and Bharat Insecticides Ltd (BIL, rated 'CARE AA-; Stable', 'CARE A1+'). The group has presence in diverse segments of the agrochemical industry with each group company focusing and specializing in a distinct segment. 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 the other group companies are engaged in valued added product of formulations and packaging (Pet Bottles). The group has synergetic operations through integrated and interlinked business processes with all the companies being managed by the same management.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	456.05	622.71
PBILDT	81.78	112.66
PAT	33.88	54.31
Overall gearing (times)	0.43	0.29
Interest coverage (times)	6.18	9.05

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.

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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.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Cash Credit	-	-	-	106.32	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	40.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Commercial Paper (Proposed)	-	-	-	20.00	CARE A1+
Commercial Paper (Carved Out)	-	-	7 to 364 days	60.00	CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	106.32	CARE AA-; Stable	-	1)CARE AA-; Stable (18-Jan-17)	1)CARE AA- (13-Jan-16)	1)CARE AA- (16-Jan-15)
2.	Non-fund-based - ST-BG/LC	ST	40.00	CARE A1+	-	1)CARE A1+ (18-Jan-17)	1)CARE A1+ (13-Jan-16)	1)CARE A1+ (16-Jan-15)
3.	Commercial Paper	ST	20.00	CARE A1+	-	1)CARE A1+ (18-Jan-17) 2)CARE A1+ (27-Sep-16)	1)CARE A1+ (13-Jan-16)	-
4.	Commercial Paper	ST	60.00	CARE A1+	-	1)CARE A1+ (18-Jan-17) 2)CARE A1+ (27-Sep-16)	-	-
5.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA-; Stable (18-Jan-17)	-	-

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