Bharat Rasayan Limited

December 27, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long term Bank Facilities	150.00	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	100.32	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**250.32 (Rupees Two Hundred Fifty crore and Thirty Two lakhs only)**		
Commercial Paper (CP) Issue^	**50.00 (Rupees Fifty crore only)**	CARE A1+ (A One Plus)	**Reaffirmed**
Commercial Paper (CP) Issue*	**100.00 (Rupees One Hundred crore only)**	CARE A1+ (A One Plus)	**Reaffirmed**

^Standalone

*carved out of sanctioned working capital limits of the company

Detailed Rationale & Key Rating Drivers

CARE has changed its analytical approach in the current review while arriving at the ratings of Bharat Rasayan Limited. Now, CARE has analyzed Bharat Rasayan Limited on a Standalone basis as against earlier combined view of the group companies namely Bharat Rasayan Limited, B.R Agrotech Limited and Bharat Insecticides Limited was considered by CARE due to integrated and interlinked business under the same management. Change in analytical approach is purely on account of revised criteria adopted by CARE Ratings for rating of debt while taking a combined approach for a group of entities. As per the revised criteria, a listed entity cannot be combined with other listed/non-listed entities to arrive at the ratings for a group of entities/entity on a combined approach & hence they have to be analysed as a separate entity and not combined with other entities of the group.

The reaffirmation of the ratings assigned to the bank facilities and commercial paper issue of Bharat Rasayan Limited (BRL) continues 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 (along with its group companies namely Bharat Insecticides Limited (BIL) and BR Agrotech Limited (BRAL); hereinafter collectively referred to as Bharat group). The ratings further factor in its wide marketing & distribution network with established brands and large number of product registration and its reputed customer base. The ratings also factor in comfortable financial risk profile of the company characterized by its growing scale of operations, 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 pesticides industry and vulnerability of the operations to agro- climatic conditions.

Key Rating Sensitivities

Going forward, the ability of the company to sustain its scale of operations and capital structure as well as effectively managing its working capital cycle and its ability to explore new geographies and new products would remain the key rating sensitivities.

Positives

- Sustained Increase in the total operating income with the similar CAGR as reflected over the past 3 years without impacting its profitability margins.
- Ability of the company to undertake planned capex without affecting its Capital structure.
- Ability of the company to manage its working capital requirements while timely realizing from its debtors. Improvement in the Overall Gearing ratio (Overall Gearing below 0.30x on a sustained basis in future).

Negatives

- Significant Increase in the working capital Cycle on a sustained basis
- Decline in income by more than 20% or decline in PBILDT Margin by more than 250 bps from the current levels in any of the year going forward
- Deterioration in its Capital Structure (Overall Gearing of more than 0.70x in the projected period)

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

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 promoters experience spanning more than four 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 around 40 years of experience. He looks after banking, finance, taxation, accounts and administration. Further, Mr. R.P. Gupta, whole of time director of BRL and BRAL and director of BIL, 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 are resourceful and supporting the working capital requirements of the company on need basis. The promoters and their family members have infused funds in the FY19 as well to support the working capital requirements. Loans from promoters & their family stood at Rs. 42.84 crore as on March 31, 2019 (Rs. 29.61 crore as on March 31, 2018). The support from the promoters has reduced the dependency of the company on external sources for the working capital requirements. Further, Promoters have also infused Rs 40 crore in the past which have been subordinated to the bank loans & hence treated as quasi-equity.

Integrated operations offering along with its group companies

The BRL is majorly in the manufacturing of technical grade pesticides and is one of the leading manufacturers of technical grade pesticides in India. BRL also manufactures intermediates grades, which is the raw material for manufacturing technical grades. The sales of technical manufactured by BRL are also made to group companies (BIL and BRAL), which uses it as a raw material for the manufacturing of formulations. With its three companies viz. Bharat Rasayan Ltd., Bharat Insecticides Ltd. and BR Agrotech Ltd., the Bharat group 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. Bharat Group has made its presence in the value chain, right from production of technical grade pesticides to the varied formulations through direct and reverse integration. Thus the group has cost advantage with least dependence on external inputs.

Technical grade pesticides accounted for 77.62% (PY: 80.33%), intermediates grades accounted for 15.99% (PY: 15.57%) and formulation grades accounted for 6.07% (PY: 2.07%) of gross sales of BRL.

On a group level, composition of sales is dominated by technical pesticides which account for 42.78 % of the total sales of the group in FY19 (PY: 42.25%) and formulations grade & intermediates combined accounts for 48.95% of total sales of the group in FY19 (PY: 52.84%).

Diversified product mix

BRL has around 200 international registrations and has been exporting its products (technical grade, intermediates and formulations) to more than 65 countries across the globe and is a preferred supplier for several MNCs for their global demand of several molecules. 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 including their formulations & intermediates. The group's product mix has more than 200 varieties of pesticides under technical grade, formulations and intermediates. Further, the group also has a Government approved R&D Centre based in Bahadurgarh, Haryana.

Furthermore, the group has a strong Research and development (R&D) team registered with the Ministry of Science & Technology, Government of India which is eligible for weighted deduction under the income tax act in respect of expenditure incurred on R&D. Besides, the group also has bottling operations under B.R Agrotech Ltd (at Kala Amb in Himachal Pradesh) with installed production capacity of 36 crore bottles per year. The client list in bottling operations include companies in food, pickle, liquor, pharmaceutical, confectionery, pesticides, liquid soaps and shampoo industries.

Wide marketing and distribution network

BRL has a market leadership in many technical products including Lambda Cyhalothrin (Insecticides), Thiamethoxam (Insecticides) and Fipronil (Insecticides) among others for which BRL is a preferred supplier in the international markets as well as in the domestic markets. Though there is a product concentration risk as the top 9 products of BRL accounts for around ~62% of total sales of BRL in FY19 (around 52% of total sales in FY18) and around ~59% of total sales of BRL in H1FY20.

Further, the company is supplying its product in both local as well as overseas market. Domestic sales account for around 72% of total sales of BRL in FY19 (around 76% in FY18) and around 59% in H1FY20. The group has a network of approximately 4,800 dealers and 30,000 distributors for supplies spread across the country and have 26 branches in all the operating states.

Consistent growth in scale of operations and healthy profitability

BRL has continued to register a healthy growth in its revenues on the back of continued relationships with their existing clients and further addition of new customer base in both domestic as well as overseas markets and increased realisations of agrochemical products on account of increased raw material prices with healthy demand of agricultural products. BRL is focusing to increase its scale of operations and looking for new geographies for sales. Total operating income of BRL consistently grew at a healthy CAGR of 29.66% over a period of FY16-FY19 and at a healthy annual rate of 25% in FY19 to reach Rs.994.67 crores in FY19. Disruptions in China led to customers looking for better avenues for supply of agrochemical products. BRL with its successful track record has benefitted from this, achieved new product registration and acquired new customers and geographies while retaining existing customers. Shut down of plants in China and increased crude oil prices also resulted in increase in raw material prices and thus increase in realizations with ability of the company to pass on the increased cost to its customers. During H1FY20, company has achieved a total operating income of Rs. 720.08 crore (Rs. 530.39 crore in H1FY19).

PBILDT margin of the company though declined marginally but remains comfortable at 19.10% in FY19 as against 20.22% in FY18. Decline in margins is majorly on account of increase in employee cost of the company in FY19 and partly due to increase in raw material prices as environmental crackdowns in China continued and disrupted operations of several upstream suppliers which led to raw material scarcity and consequently increase in prices. PBILDT Margins of the company slightly increased from 18.81% in H1FY19 to 19.10% in H1FY20 with increased revenue and fixed employee cost and other expenses.

Comfortable Capital Structure

Capital structure of BRL continues to remain comfortable marked by zero long term debt as on March 31, 2019 apart from Rs. 40.00 crore long term loan from its promoters which are subordinated to its bank facilities and are considered as quasi equity. Working Capital borrowings of the company increased from Rs. 88.34 crores (comprised of CC utilisation of Rs. 58.73 crores and unsecured loan from promoters and related parties of Rs. 29.61 crores) as on March 31, 2018 to Rs. 206.99 crore (comprised of CC utilisation of Rs. 79.15 crores, short term loan of Rs. 85.00 crore and unsecured loan from promoters & related parties of Rs. 42.84 crore) as on March 31, 2019 to finance its increased inventory requirements and high debtors with its increasing scale of operations. Inventory of the company increased from Rs. 94.17 crore as on March 31, 2108 to Rs. 210.22 crore as on March 31, 2019 with majority of inventory lies as a finished goods for meeting the expected demand from export sales. As a result, Overall gearing increased to 0.46x as on March 31, 2019 from 0.26x as on March 31, 2018. However, total debt reduced from Rs. 206.99 crore as on March 31, 2019 to Rs. 145.75 crore as on September 30, 2019 owing to lower inventory and healthy profitability and accretion of profits into general reserves. Inventory of the company reduced to Rs. 145.46 crore as on Sep 30, 2019. Also, Overall gearing of the company improved from 0.46x as on March 31, 2019 to 0.29x as on September 30, 2019.

Liquidity: Adequate

The liquidity position of the BRL remains adequate as marked by zero long term debt, its healthy cash accruals and low working capital utilizations. BRL is generating healthy cash accruals for meeting the needs of general capex. GCA of the company for FY19 was Rs. 129.32 crore. During FY19, company has done the capex of around Rs. 47 crore (for general capex purpose and for expansion of manufacturing facility at Dahej plant) which was funded entirely through internal accruals. Tangible Net worth of the company increased from Rs. 338.13 crore as on March 31, 2018 to Rs. 448.13 crore as on March 31, 2019 with accretion of profits in the reserve. Interest Coverage Ratio of the company remains comfortable and stood at 11.94x for FY19 (14.44x for FY18) and other debt service coverage ratio, Total Debt to GCA stood comfortable at 1.60x for FY19 (0.75x for FY18). Current ratio of the company stood at 1.91x as on March 31, 2019 as against 2.24x as on March 31, 2018. Free Cash and Bank Balance of the company stood at Rs. 5.51 crore as on March 31, 2019. Further, during the 12-month period ending November, 2019, average of maximum working capital utilization of BRL remains comfortable and stood at 56.86%.

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.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. Around 60-65% sales for the whole year is done on the first half of the year 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 resulted in high working capital requirement by the group in first half of the year as compared to second half of the year. Further, due to the seasonal demand for pesticides, 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. This increases the inventory holding cost. 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. 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 requirements continue to remain high. During FY19, Operating Cycle of the group increased from 112 days for FY18 to 143 days due to increase in collection period days of BRL from 77 days in FY18 to 92 days in FY19.

Trade receivable of the company increased from Rs. 221.61 crore as on March 31, 2018 to Rs. 279.09 crore as on March 31, 2019 and further to Rs. 429.37 crore as on Sep 30, 2019. Increase in debtors as on Sep 30, 2019 mostly pertains to sales in H1FY20. Further, debtors of the company came down to Rs. 190.91 crore as on December 11, 2019.

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, the group has its presence spread across 22 states as well as in multiple markets (domestic and international) which reduces the 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 more than 200 registered products including both in technical grade as well as formulations.

Further, 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 of BRL constitutes around 28% of total sales of the company in FY19 (PY: around 24%). Top 2 countries (USA and Iran) accounted for more than 30% of export sales of BRL during FY19. 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 55% of total raw material requirements of BRL in FY19. 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 done by the company. As per the management, company is expecting deterioration of rupee w.r.t. foreign currency, thus they don't hedge its foreign currency receivables. The company has booked a forex gain of Rs. 1.69 crores in FY19 (PY: gain of Rs.2.34 crores) on account of favorable exchange rate fluctuation.

Analytical approach: Standalone

A combined approach was being followed earlier (to analyze all the three entities) due to integrated and interlinked business and common management of Bharat Rasayan Limited (BRL), B.R Agrotech Limited and Bharat Insecticides Limited. Now, CARE has changed its analytical approach to Standalone basis on account of revised criteria adopted by CARE Ratings for rating of debt while taking a combined approach for a group of entities However, ratings still continue to factor in the strong interlinkages of BRL with its group entities (i.e. BIL and BRAL).

Applicable Criteria

CARE's Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Manufacturing Companies
CARE's methodology for financial ratios (Non Financial sector)
CARE's Criteria for Factoring Linkages in Ratings

CARE's methodology for Pesticide sector

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) and Bharat Insecticides Ltd (BIL). BRL along with its group companies has presence in diverse segments of the agrochemical industry with each group company focusing and specializing in a distinct segment. The group has synergetic operations through integrated and interlinked business processes with all 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 the other group companies are engaged in valued added product of formulations and packaging (Pet Bottles).

BRL is one of the leading manufacturers of technical grade pesticides in India and is government recognized two Star Export house. BRL is having more than 200 international registrations and has been exporting its products to more than 65 countries across the globe. Total export sales of BRL constitute 28% of total sales of the company in FY19 (PY: around 24%). BRL started its operations by setting up a manufacturing plant with installed capacity of 5000 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. Further, the company is in process of setting up a new manufacturing Plant at Syka, Gujarat with major focus on backward integration to reduce its dependency on imports for procuring raw materials and to add new molecules to its portfolio.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	797.92	994.67
PBILDT	161.34	189.97
PAT	98.31	111.52
Overall gearing (times)	0.26	0.46
Interest coverage (times)	14.44	11.94

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

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	-	-	-	150.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	100.32	CARE A1+
Commercial Paper	-	-	-	50.00	CARE A1+
Commercial Paper	-	-	-	100.00	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 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-Cash Credit	LT	150.00	CARE AA-; Stable	-	1)CARE AA-; Stable (31-Dec-18)	1)CARE AA-; Stable (05-Jan-18)	1)CARE AA-; Stable (18-Jan-17)
2.	Non-fund-based - ST-BG/LC	ST	100.32	CARE A1+	-	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (05-Jan-18)	1)CARE A1+ (18-Jan-17)
3.	Commercial Paper	ST	50.00	CARE A1+	-	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (19-Jun-18)	1)CARE A1+ (05-Jan-18)	1)CARE A1+ (18-Jan-17) 2)CARE A1+ (27-Sep-16)
4.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (19-Jun-18)	1)CARE A1+ (05-Jan-18)	1)CARE A1+ (18-Jan-17) 2)CARE A1+ (27-Sep-16)
5.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (05-Jan-18)	1)CARE AA-; Stable (18-Jan-17)

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
Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst 1 Contact
Name: Ms Ravleen Sethi
Contact no: 011 - 4533 3278
Email ID: ravleen.sethi@careratings.com

Analyst 2 Contact
Name: Mr Gaurav Dixit
Contact no: 011 - 4533 3235
Email ID: gaurav.dixit@careratings.com

Business Development Contact
Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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.

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