Bharat Rasayan Limited

December 30, 2020

Ratings

Facilities/Instruments*	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	150.00	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	50.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**200.00 (Rs. Two Hundred Crore Only)**		

** Details in Annexure I*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of BRL continue to derive strength from the long track record of promoters in the pesticides industry and its integrated operations marked by its presence in the entire value chain of the pesticides. The ratings, further factor in its wide marketing & distribution network with established brands, large number of product registrations and its reputed customer base across the globe. 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.

BRL has not sought any moratorium on payments from its lenders under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Key Rating Sensitivity

Positive factors

- Increase in the total operating income by 30% or more on a sustained basis without impacting its profitability margins.
- Ability of the company to achieve a total debt to GCA of less than 0.20x on a sustained basis
- Ability to improve its PBILDT margins by more than 300bps on a sustained basis from the current levels.

Negative factors

- Significant Increase in the working capital Cycle on a sustained basis impacting the liquidity profile of BRL.
- Decline in TOI by more than 20% or decline in PBILDT Margin by more than 500 bps on a sustained basis.
- Deterioration in its Capital Structure with Overall Gearing of more than 0.60x in the projected period.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of management in the pesticides industry and Resourceful Promoters

BRL benefits from its long track record of operations and experienced management team. 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, 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, 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 of time director has over 30 years of experience in the agrochemical industry. He looks after R&D, production and project execution activities. The directors of BRL are supported by a team of professionals with rich experience in varied spheres of business.

The promoters of the company have a demonstrated track record in supporting the working capital requirements of the company as & when required. The support from the promoters has reduced the dependency of the company on external sources for the working capital requirements.

Integrated operations offering diversified product mix

BRL is majorly in the manufacturing of technical and the sales of technical of the company are also made to BRAL (group company being held by promoters), which uses it as a raw material for the manufacturing of formulations. BRL also manufactures intermediates, which is the raw material for manufacturing technical grades. BRL derives cost advantage from the integrated operations through lower dependence on import of technical grades which is the key input for manufacturing of formulations. BRL has established a strong presence in domestic and international markets. It has

synergetic operations through integrated and interlinked business processes of the group companies. BRL 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, it has cost advantage with least dependence on external inputs. Technical pesticides accounted for 79% (PY: 77.05%), intermediates accounted for 14.89% (PY: 15.87%) and formulation grades accounted for 5.01% (PY: 5.77%) of gross sales of BRL.
The 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. BRL's product mix has more than 200 varieties of pesticides under technical grade, formulations and intermediates. Further, BRL has around 200 international registrations and has been exporting its products (technical grade, intermediates and formulations) to more than 60 countries across the globe and is a preferred supplier for several MNCs for their global demand of several molecules. BRL has a Government approved R&D Centre based in Bahadurgarh, Haryana.
Furthermore, BRL 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. During FY20, company spent around Rs. 2.53 crores on R&D as against Rs. 1.58 crores in FY19.

Wide marketing and distribution network with diverse geographic presence
BRL has a strong competitive position in some of technical products viz. Lambda Cyhalothrin Technical, Metaphenoxy Benzaldehyde and Metribuzine Technical among others for which BRL is a preferred supplier in the international markets. The contribution from these three technicals forms around 35% to 40% of its TOI. Further, the company is supplying its products in both local as well as overseas markets. Domestic sales accounted for around 51.52% of total sales of BRL in FY20 (71.96% in FY19) and 60.64% in H1FY21 (H1FY20: 58.63%). BRL 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. Further, BRL has a large institutional customer base in the domestic market as well as in the international market with long standing relationship and low client concentration risk. In the international market, BRL has strong presence in East Asia, South America, Europe and Middle East. Further, few large customers like Syngenta and Sumitomo, contribute to both the domestic and export pie of BRL. Though there is a product concentration risk with the top 10 products of BRL contributing to around 71% of the total sales (PY: 62%, H1FY21: 66%, and H1FY20: 59%) but BRL's long standing customer relationship with all the large institutional buyers for these products mitigates this risk for BRL to some extent. Further, the major suppliers for the imported raw materials are located in China, Hong Kong, Singapore, and Belgium.

Growing Operations and Profitability
Total operating income of the company has been consistently increasing from Rs. 622.71 crores in FY17 to Rs. 1231.62 crores in FY20 with a CAGR of 25.53%. During FY20, BRL reported a y-o-y growth in total operating income of 30% to reach Rs. 1231.62 crore as compared to the total operating income of Rs. 994.67 crore in FY19 on account 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 and healthy demand of agricultural products. The PBILDT and PAT margins of the company marginally increased in FY20 and stood comfortable at 20.02% (PY: 19.10%) and 12.80% (PY: 11.21%).
During H1FY21, the company achieved a total operating income of Rs. 603.42 crore (Rs. 725.87 crore in H1FY20). The PBILDT and PAT also declined to Rs. 126.35 crore (H1FY20: Rs. 143.31 crore) and Rs. 82.02 crore (H1FY20: Rs. 96.35 crore) respectively. The same has been on account of account of supply chain restrictions in the months of April and May 2020 amid nationwide lockdown due to COVID-19.

Comfortable Capital Structure
Capital structure of the company continues to remain comfortable marked by zero long term debt as on March 31, 2020 apart from Rs. 22.00 crore long term loan from its promoters which was earlier subordinated to the bank facilities of BRL and was considered as quasi equity. The same has been treated as long term debt as on March 31, 2020, as the company, with the permission of the lenders, has requested to withdraw the funds from the company. The same has been done since the cash accruals are higher and the company has been paying interest @9% to the promoters on these loans; hence, to reduce the interest burden on the company, since sufficient accruals are there, BRL has repaid Rs. 18.00 crore to the promoters for the year ended March 31, 2020, which will further come down to Rs. 10.00 crore by the end of March 31, 2021. Total debt of the company decreased from Rs. 206.99 crores (including 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 crores) as on March 31, 2019 to Rs. 93.86 crore as on March 31, 2020 (including CC utilisation of Rs. 27.34 crores, unsecured loan from promoters & related parties of Rs. 44.51 crores and Rs 22.00 crore long term loan from promoters). The other debt coverage indicators were also healthy in FY20. The total debt to GCA & interest coverage ratios stood comfortable at 0.41x (PY: 1.60x) & 15.18x (PY: 11.94x) respectively for FY20.

Strong Liquidity

The liquidity of BRL is strong. The company is generating heathy cash accruals with no long term debt outstanding other than the debt due to the promoters of the company which does not have any scheduled repayments. During the 12-month period ending October, 2020, average working capital utilization stood comfortable at 10.52% while the average of maximum utilization stood at 17.13%. BRL did not avail any moratorium under the RBI relief package. The company has free cash & bank balance amounting to Rs. 45.56 crore as on March 31, 2020 (PY: Rs. 5.51 crore) and Rs. 74.70 crore (Rs. 45.33 crore in SBI Mutual fund, Rs. 23.33 crore cash and bank balance, and Rs. 6.04 crore bank FDRs) as on September 30, 2020 against which there are no scheduled long term debt repayments. The mutual fund investments stood at Rs. 107.74 crore with free cash & bank balance of Rs. 15.47 crore as on November 30, 2020. During FY20, the operating cycle of the company decreased from 143 days in FY19 to 132 days in FY20 due to decrease in collection period days from 92 days in FY19 to 79 days in FY20.

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 on sales. The commoditised nature of the products and seasonality factor (high demand during crop sowing seasons) makes the operations of BRL highly working capital intensive. Around 60% sales for the whole year is done in the first half of the year for BRL 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 results in high working capital requirement for BRL in first half of the year as compared to second half of the year. Further, due to the seasonal demand for pesticides, BRL 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 working capital requirement continues to remain high. During FY20, Operating Cycle of BRL decreased from 143 days in FY19 to 132 days in FY20 due to decrease in collection period days from 92 days in FY19 to 79 days in FY20.

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 stood at Rs. 250.59 crore as on March 31, 2020 and Rs. 333.19 crore as on September 30, 2020. Increase in debtors as on September 30, 2020 mostly pertains to sales in H1FY21.

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, BRL has its presence spread across 22 states as well as in multiple markets (domestic and international) which reduces the BRL's 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. As per the news article in June 2020, there was a proposed ban on 27 pesticides which are likely to "involve risk to human beings and animals however, as it was a draft order, no pesticide mentioned in the order has been banned as of now. As per the management, BRL deals only with Pendimethalin out of the 27 insecticides proposed to be banned by the government which contributed around 2% to the total operating income of BRL during FY18-FY20 (FY18: Rs18.03 crore, FY19: Rs 20 crore, FY20: Rs 24.70 crore).

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 constitute 43% of total sales of the company in FY20 (PY: around 28%). BRL is also importing raw materials for manufacturing of technical grade pesticides.

Imports formed 64.65% (PY: 54.91%) of total raw material requirements (FY20: Rs. 790.65 crore, FY19: Rs. 725.30 crore) of BRL in FY20. However, the company purchases raw material from foreign markets on cash basis for around 80% of its purchases from these markets. Further, foreign exchange fluctuation risk is reduced partially on account of natural hedge available in the form of export sales by the company, although the management doesn't hedge its foreign currency receivables. The company has booked a forex gain of Rs. 14.80 crore in FY20 (PY: gain of Rs. 1.69 crores) on account of favorable exchange rate fluctuation.

Industry Outlook

The domestic demand for agrochemicals is expected to remain elevated with favourable agronomical conditions such as good moisture in the soil and adequate water levels in reservoirs which bodes well for the winter crop/Rabi season. With the government propagating the development of the agricultural sector and with the recent proposals under the 'Aatmanirbhar Bharat' package pertinent towards the upliftment of the agrarian economy focused on boosting agriculture and its allied sectors (by strengthening its infrastructure and logistics), the demand for agrochemicals for the rest of FY21 seems sanguine. Some of the ambitious steps taken by the Government of India to receive the role of agriculture in the growth of Indian economy such as increasing MSPs, eNAM portal, distribution of direct benefit transfer via PM Kisan Samman Nidhi has created a robust foundation to enhance farmers income and encourage wider adoption of high quality seeds. Going forward, with acreage and crop prices both improving, the sector is structurally well-placed also considering the fact that that this year's Kharif harvest is slated to be a bumper crop and the farming community will be having good liquidity to spend money to safeguard their crop from pests and diseases in the Rabi season. Exports of agrochemicals are expected to remain steady during H2FY21. The pandemic has had limited impact on crop planting patterns and crops like wheat, rice and soya bean have shown strength. The domestic agrochemicals sector has a good opportunity to gain considerable market share in the global markets as customers are looking to diversify their supplies away from China. The industry is also trying to engage into backward integration for the manufacturing of technical grade pesticides as it wants to shift its reliance from China and become self-sufficient in the coming years.

Analytical approach: Standalone

Applicable criteria:

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
Financial Ratios – Non-Financial Sector
Rating Methodology for Pesticide Companies
Liquidity Analysis of Non-Financial Sector Entities

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 of BR Agrotech Ltd (BRAL) and used to comprise Bharat Insecticide Ltd (BIL). Bharat Insecticides Limited is now associated with Mitsui & Co. Limited and Nippon Soda Co. Limited. Mitsui and Nippon have acquired 56% stake in BIL from the erstwhile promoters through a special purpose company (Bharat Certis Limited) co-founded by Nippon and Mitsui.

BRL has synergetic operations through integrated and interlinked business processes with BRAL as both the companies are 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. BRL is one of the leading manufacturers of technical grade pesticides in India and is government recognized two Star Export house. Over 200 products have been registered with the Central Insecticides Board and around 100 brands have the Trade Mark tags. BRL is having more than 200 international registrations and has been exporting its products to more than 60 countries across the globe. Total export sales of BRL constitute 48% of total sales of the company in FY20 (PY: around 28%).

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

Brief Financials (Rs. crores)	FY19 (A)	FY20 (A)
Total operating income	994.67	1231.62
PBILDT	189.97	246.54
PAT	111.52	157.64
Overall gearing (times)	0.49	0.23
Interest coverage (times)	11.94	15.18

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	-	-	-	50.00	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 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-Cash Credit	LT	150.00	CARE AA-; Stable	-	1)CARE AA-; Stable (27-Dec-19)	1)CARE AA-; Stable (31-Dec-18)	1)CARE AA-; Stable (05-Jan-18)
2.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A1+	-	1)CARE A1+ (27-Dec-19)	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (05-Jan-18)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	1)Withdrawn (22-Dec-20)	1)CARE A1+ (27-Dec-19)	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (19-Jun-18)	1)CARE A1+ (05-Jan-18)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	1)CARE A1+ (22-Dec-20)	1)CARE A1+ (27-Dec-19)	1)CARE A1+ (31-Dec-18) 2)CARE A1+ (19-Jun-18)	1)CARE A1+ (05-Jan-18)
5.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (05-Jan-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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.	Non-fund-based - ST-BG/LC	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.*

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