Bharat Rasayan Limited

December 31, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Remarks**
Long term Bank Facilities	150.00 (enhanced from Rs. 106.32 crore)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	100.32 (enhanced from Rs. 40.00 crore)	**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 (enhanced from Rs. 40.00 crore)**	CARE A1+ (A One Plus)	**Reaffirmed**
Commercial Paper (CP) Issue*	**100.00 (enhanced from Rs. 60.00 crore)**	CARE A1+ (A One Plus)	**Reaffirmed**

**carved out of sanctioned working capital limits of the company*

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) 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. The ratings further factors in wide marketing & distribution network of the group 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 group marked by its growing scale of operations with improved profitability, 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 operations, highly regulated & competitive nature of pesticides industry and vulnerability of the operations to agro- climatic conditions.

Going forward, the ability of the group 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.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of management in the pesticides industry

The group is one of the leading manufacturers of technical grade pesticides in India and has been engaged in 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, 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 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.

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

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 BRL is majorly in the manufacturing of technical grades and intermediate grades of pesticides and the sales of technical of the company are made to group companies (BIL and BRAL) which uses them as a raw material for the manufacturing of formulations. The group derives cost advantage from the integrated operations through lower dependence on imports of technical and intermediate grades which is the key input for manufacturing of formulations.

The composition of sales is dominated by formulations which account for 44.65% of the total sales of the group in FY18 (PY: 51.53%) and technical grade & intermediates combined accounts for 50.44% of total sales of the group in FY18 (PY: 44.31%). Increased contribution of technical grade and intermediates to the total sales of the group, which is the higher profitability segment, have also resulted in improvement of PBILDT Margin.

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.

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

The group has a market leadership in many technical products including Clodinafop Propargyl (Herbicides), Lambda Cyhalothrin (Insecticides), Thiamethoxam (Insecticides) and Fipronil (Insecticides) among others for which the group is a preferred supplier. Though there is a product concentration risk as the top 10 products of BRL accounts for around 56% of total net sales of BRL in FY18 (PY: 70%) and around 61% of net sales of BRL in H1FY19. Further, the group 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, the group has strong presence in East Asia, South America, Europe and Middle East. Domestic sales account for around 85% of total combined gross sales of Bharat group in FY18 (85% in FY18) and around 90% in H1FY19. The group has a network of approximately 3,500 dealers and 30,000 distributors for supplies spread across the country and have 23 branches in all the operating states.

The top 5 customers of the BRL excluding the group companies (BIL & BRAL) accounts for Rs. 223.33 crore of sales in FY18 (Rs. 117.98 crore of sales in FY17 and Rs. 73.81 crore of sales in FY16) which is around 35% of total sales of the company excluding sales to group companies (around 25% of total sales in FY17 and around 22% of total sales in FY16).

Growing Operations and Profitability

During FY18, Bharat group reported total combined operating income of Rs. 1337.99 crore as against total combined operating income of Rs. 1112.81 crore in FY17, registering y-o-y increase of around 20% on account of increase in sales of technical segment of the group by around 36% from Rs. 465 crore in FY17 to Rs. 634 crore in FY18 as a result of good monsoon and increased realizations on back of continued good relationships with their existing clients and further addition of new customer base in both domestic as well as overseas markets.

PBILDT margin of the group improved marginally from 19.72% in FY17 to 19.85% in FY18 with increased contribution of technical segment from 35% of total group sales to 42% of total group sales. During FY18, increased prices of crude oil has resulted in high prices of raw material but the company had successfully passed on the increased prices to its customers. Bharat Group is having a good customer base, with whom they are dealing with years and on a fixed gross margin basis. Therefore, increased in raw material doesn't had a much impact on their profitability margins. PAT Margin of the group also improved from 9.88% in FY17 to 11.85% in FY18 with increase in scale of operations and same interest and depreciation expenses.

Comfortable Capital Structure

Bharat Group doesn't have any long term debt as on March 31, 2018 and had short term loans of Rs. 104.98 crore as on March 31, 2018 (Rs. 102.93 crore as on March 31, 2017) comprised of working capital borrowings of Rs. 64.82 crore and unsecured short term loans of Rs. 40.17 crore from related parties as on March 31, 2018. The financial risk profile of group remains comfortable characterized by healthy capital structure and comfortable coverage indicators. The Overall gearing of the group has improved from 0.21x as on March 31, 2017 to 0.16x as on March 31, 2018 on account of accretion of profits to the networth. Interest coverage ratio increased from 11.70 times in FY17 to 16.12 times in FY18 on account of better profitability of the group.

Key Rating Weaknesses

Working capital intensive nature of operations (Moderate Liquidity)
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 65% sales for the whole year is done on the first half of the year for the Bharat Group and most of the sales are done on a credit of around 90 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, although BRL receives credit period of 90 days from its suppliers, however, the company makes early payments to its suppliers on account of early payment discount, resulting in average creditor period of around 24 days. Thus, due to such intrinsic nature of business, the group's working capital requirement continues to remain high.
Current Ratio of the group remains comfortable at 2.87x for FY18 (PY: 2.65x) and average working capital utilization of BRL for the 12 months period ending Sep-18 stood at 46.97%.
During FY18, Operating Cycle of the group increased from 110 days for FY17 to 126 days for FY18 due to increase in collection period days of Bharat group from 73 days in FY17 to 91 days in FY18.

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 group'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, Bharat group 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
Bharat Group is exposed to foreign currency fluctuation risk as the total export sales of BRL constitutes 24% of total sales of the company in FY18 (PY: around 24%) and the total export sales of the group (combined) forms around 15% of total sales of the group in FY18 (PY: 15%). 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% of total raw material requirements of BRL. So, the foreign exchange fluctuation risk is reduced partially on account of natural hedge.

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.
BRL has two manufacturing plants based in Dahej, Gujarat and Mokhra, Haryana, with total installed capacity of 20,000 metric ton per annum (MTPA).

Standalone

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	622.71	797.92
PBILDT	112.89	161.34
PAT	54.31	98.30
Overall gearing (times)	0.31	0.26
Interest coverage (times)	9.06	14.44

A: Audited
Combined (Basis of Combination: *The numbers have been combined through row by row addition of all line items of the three group companies after excluding intra-group purchase/sales.)*

Brief Financials (Rs. crore)	FY17 (Act.)	FY18 (Act.)
Total operating income*	1112.81	1337.99
PBILDT	219.46	265.53
PAT	109.94	158.60
Overall gearing (times)	0.21	0.16
Interest coverage (times)	11.70	16.12

Act.: Actual
**Arrived* after subtracting inter group sales of Rs. 189.23 crore in FY18 and Rs. 181.49 crore in FY17 from the combined total sales of all the three companies.

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.*

Analyst Contact:
Name: Mr Gaurav Dixit
Tel: 011- 45333235
Mobile: +91 9717070079
Email: gaurav.dixit@careratings.com

For detailed Rationale Report and subscription information, please contact us at www.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.

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	150.00	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Jan-18)	1)CARE AA-; Stable (18-Jan-17)	1)CARE AA- (12-Jan-16)
2.	Non-fund-based - ST-BG/LC	ST	100.32	CARE A1+	-	1)CARE A1+ (05-Jan-18)	1)CARE A1+ (18-Jan-17)	1)CARE A1+ (12-Jan-16)
3.	Commercial Paper	ST	50.00	CARE A1+	1)CARE A1+ (19-Jun-18)	1)CARE A1+ (05-Jan-18)	1)CARE A1+ (18-Jan-17) 2)CARE A1+ (27-Sep-16)	1)CARE A1+ (12-Jan-16)
4.	Commercial Paper	ST	100.00	CARE A1+	1)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)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691