India Pesticides Limited

March 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	2.99 (reduced from Rs. 6.40 crore)	**CARE A-; Positive (Single A Minus; Outlook: Positive)**	**Reaffirmed and Outlook revised from Stable to Positive**
Long/Short term Bank Facilities	45.00	**CARE A-; Positive/CARE A2+ (Single A Minus; Outlook: Positive/A Two Plus)**	**Reaffirmed and Outlook revised from Stable to Positive**
Short-term Bank Facilities	15.00	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**62.99 (Rupees Sixty Two crore and Ninety Nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of India Pesticides Limited (IPL) takes into account the comfortable financial risk profile of the company characterized by its growing scale of operations along with comfortable capital structure and healthy debt protection metrics. Further, the ratings continue to derive strength from the long-standing experience of the promoters in the pesticides industry, its established track record of operations and strong competitive position of its key molecules in the national and international market.

The ratings are, however, constrained by the customer concentration risk, its working capital intensive nature of operations, exposure to fluctuations in raw material prices and foreign currency exchange rates, vulnerability of operations to agro climatic conditions and fragmented & competitive nature of the pesticide industry.

Outlook: Positive

The Outlook for the long term facilities of IPL has been revised from Stable to Positive on account of expected improvement in the financial risk profile of the company with favourable agrochemicals industry dynamics. The ratings may be revised upwards if the company is able to achieve the envisaged improvement in its credit profile including the growth in scale of operations and profitability while maintaining its capital structure in FY20 (refers to period from April 01 to March 31). The outlook may be revised to 'Stable' if the company is not able to attain the envisaged growth in its scale of operations and profitability at the envisaged capital structure.

Rating Sensitivities

Going forward, the ability of the company to increase its scale of operations, reducing dependence on few products along with sustainability of profitability without any adverse impact on its capital structure shall be the key rating sensitivities.

Positives

- Increase in TOI by more than 30% without impacting its profitability margins in FY20.
- Ability of the company to diversify its product portfolio and its presence in different geographies.
- Improvement in the Overall Gearing ratio (Overall Gearing below 0.25x 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 on a sustained basis on account of any impact on the relationships of the company with its top customers or otherwise
- Deterioration in its Capital Structure (Overall Gearing of more than 0.50x in the projected period)

Detailed description of the key rating drivers

Key Rating Strengths

Promoter's long-standing experience in the pesticides industry

IPL is promoted by Mr. Anand Swarup Agarwal, a first generation entrepreneur. Mr. Agarwal has four decades of experience in the pesticides industry and is supported by an experienced team of professionals. Mr. Agarwal was the chief editor of Hindi Daily "Rashtriya Swarup" published by Swarup Publications (a group company) and a former director on the board of PNB Gilts Ltd. He has also served as non-official director of Punjab National Bank. Mr Agarwal is assisted by his two sons Mr.

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

Vishal Swarup Agarwal and Mr. Vishwas Swarup Agarwal, both of them with post graduate qualification in Business Administration.

Strong competitive position of few of its molecules in the national and international market

IPL's focus has been on developing few strategic products with high margin and limited competition. The company is majorly into manufacturing of technical pesticides which constitutes around 62% of its total sales in FY19 (60% of its total sales in FY18). The company has strong presence in the fungicides Captan Technical in India and in overseas market. Formulations constitutes around 26% of its sales in FY19 (25% in FY18) with majority of sales in domestic market. The company is also manufacturing Pharma Intermediaries apart from manufacturing pesticides, which are further used in dermatology industry and constitutes around 11% of its sales in FY19 (15% in FY18). The key technical products contributing towards the operating income include Captan Technical and Cymoxanil Technical for fungicides.The products of IPL are registered in 25 countries including France, Turkey, Mexico, Iran, Portugal, Australia, Japan, Sri Lanka, Serbia, UK, Spain, USA which is a step towards reducing company's dependence over the domestic markets. The company's focus has been to explore new technical grade pesticides for exports to increase the scale and profitability margin.

Consistent growth in scale of operations and healthy profitability

IPL has reported steady and stable growth in the operating income over the past few years on the back of healthy domestic demand and growing exports with significant market share for few technical products (including Captan Technical). The total operating income grew at a CAGR of around 14.38% in the past 3 years from FY16 to FY19 and at a y-o-y growth rate of around 37.72% from Rs. 255.12 crore in FY18 to Rs. 351.36 crore in FY19. The increase in sales in FY19 is due to better realizations and increase in volumes on the back of healthy export demand. Export Sales of the company increased from Rs. 89.34 crore in FY18 to Rs. 174.00 crore in FY19 post shut down of several manufacturing facilities in China environmental crackdowns and disrupted operations of several upstream suppliers in China, which led to raw material scarcity. IPL got benefitted from this and increased its export sales by registering its products in export market.
The company has maintained healthy PBILDT margin over the past years on the back of products with healthy margins and its leadership position in fungicides namely Captan Technical. PBILDT margin of the company though declined marginally but remains comfortable at 20.26% in FY19 as against 22.69% in FY18. Decline in PBILDT Margin is on account of increase in raw material prices which could not be completely passed on to its customers leading to contraction in operating margin.
Further, During H1FY20, Company had registered total operating income of Rs. 228.71 crore at a PBILDT Margin of 23.57% as against operating income of Rs. 166.42 crore at a PBILDT Margin of 22.18% in H1FY19.

Comfortable Capital Structure

Tangible Networth of the company increased from Rs. 141.42 crore as on March 31, 2018 to Rs. 185.17 crore as on March 31, 2019 owing to accretion of profits into the reserves. Total Debt of the company increased from Rs. 45.96 crore as on March 31, 2018 to Rs. 61.08 crore as on March 31, 2019 to fund its growing scale of operations. However, total Debt decreased to Rs. 47.59 crore as on December 31, 2019. Overall gearing of the company remains comfortable and stood at 0.33x as on March 31, 2019 as against 0.32x as on March 31, 2018.

Liquidity: Adequate

The liquidity position of the company is adequate as marked by its healthy cash accruals and comfortable working capital utilizations. Company is generating healthy and stable cash accruals for meeting the repayment of term loan and needs of general capex. GCA of the company for FY19 was Rs. 48.83 crore and was Rs. 41.95 crore for H1FY20 (provisional) (Rs. 37.97 crore in FY18). Further, IPL has sanctioned working capital limits of Rs.45.00 crore. The WC limits are largely utilized in the form of Pre-shipment and Post-shipment packing credit. During the 12-month period ending Jan, 2020, average monthly working capital utilization remains comfortable and stood at 60.94% providing adequate buffer to meet any financial exigency. Current Ratio of the company remains comfortable and stood at 2.19x as on March 31, 2019 (2.06x as on March 31, 2018).
Also, Interest Coverage Ratio of the company remains comfortable and stood at 12.45x for FY19 (13.84X for FY18) and Total debt to GCA stood at 1.25x for FY19 (1.21x for FY18).

Key Rating Weaknesses

Working capital intensive nature of business

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. 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. Thus, due to such intrinsic nature of business, the group's working capital requirement continues to remain high.

During FY19, Operating Cycle of the company continues to remain high and stood at 149 days as against 144 days for FY18. Inventory of the company increased from Rs. 19.22 crroe as on March 31, 2018 to Rs. 35.53 crore as on March 31, 2019. Further, Company has high collection period as it provides a credit period of around 90-120 days to its domestic customers and around 120 – 180 days plus shipment period of around 15 days to its export customers (which are large in size). Trade receivables during the period ending March 31, 2019 had also increased to Rs. 179.25 crore from Rs. 125.54 crore as on March 31, 2018. However, majority of the export debtors are backed by Letter of Credit. Thus the collection period although stretched but is secured by LC.

Further, During the last 12-month period ending January, 2020, average working monthly working capital utilization remains comfortable and stood at 60.94%.

Customer concentration risk and exposure to fluctuations in raw material prices

During FY19, the company's top 4 customers accounted for ~36% of the net sales. Although, a substantial part of sales are dependent over a small number of customers along with institutional sales made to companies with long standing track record with prominent presence in the domestic and international market namely UPL Ltd (rated CARE AA+; Negative/ CARE A1+), Rallis India Ltd., Syngenta India Limited, Syngenta Asia Pacific PTE Ltd, Sharda Cropchem Ltd. and Sapec Agro. These customers of IPL are the large formulators, which sells the formulation across the globe. The company in the past was dealing with Arysta LifeScience Inc. and was having good relationships. However, post-acquisition of ArystaLife Science Inc by UPL Limited, ability of IPL to sustain its relationships with UPL Limited is the key rating sensitivity. Further, the company is exposed to the fluctuations in the raw material prices and other derivatives of crude oil.

Vulnerability to agro-climatic conditions and regulatory risks inherent in business

IPL's income and profitability depends highly on the agro-climatic conditions prevalent in the domestic and the global markets. The industry also faces regulatory risk due to uncertainty regarding prohibition on usage of molecules in specific regions.

Exposure to foreign currency fluctuation risk

About 50% of the revenue of IPL in FY19 has been from exports which expose company to inherent risk of foreign exchange fluctuation. However, IPL also imported about 32% of its raw material requirement in FY19, which provided a natural hedge to some extent. The company is paying to the overseas suppliers from the foreign currency receivable account and matches the payment structure for their imports with the receipt of export sales. Further, Company hedged around 50% of its unhedged position by booking forward contracts and remaining 50% of its unhedged position remains left open on a rolling basis. During FY19, the company booked a net forex gain of Rs. 2.26 crore (net forex gain of Rs. 2.10 crore in FY18).

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 intense competition and focus on off-patent products leads to competitive pricing and lower margins in the domestic market. However, the increasing focus of the company on an export lead growth has resulted in insulating the company against margin pressures. Also, the competition in the technical segment is lower as compared to formulations given the technology intensive nature of operations and alchemic expertise needed to handle the highly concentrated chemicals.

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, IPL holds more than 100 registered products including both in technical grade as well as formulations.

Further, since IPL 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, IPL has equipped its units with in-house systems for treatment of solid, liquid and gaseous effluents.

Analytical approach: Standalone

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 methodology for Pesticide sector

About the Company
India Pesticides Limited (IPL) was established in 1973 as a partnership firm and subsequently, converted into a public limited company in 1984. IPL is engaged in the manufacturing of various types of pesticides (technical & formulations) and pharmaceutical intermediates. Pesticides contribute about 89% of total sales, while pharmaceutical intermediates contribute about 11% to total sales of the company in FY19.
While the company markets a bouquet of around 72 products of formulations in the Indian market under various brands, IPL's thrust is on the manufacturing of technicals (primarily fungicide based technical). Fungicides (Folpet, Captan, Ferbam, Ziram, Thiram) are mainly used on fruits, vegetables, seeds treatment as well as paint industry. Insecticides (Lindane, Monocrotophos etc.) are mainly used in cotton, sugarcane and treatment of termites for households. Herbicides are mainly used on wheat, sugarcane etc. The insecticides are used mainly against insects and anthropods which feed on crops, roots etc, Fungicides are used against fungi, bacteria, virus etc, while the herbicides are used against weeds, or unwanted plants.
The products of India Pesticides Limited are well established in Indian & International markets. The company has won many awards including top exporter award from CHEMEXIL in the past. The company is a recognized export house. The R&D facilities of the company are registered with Department of Scientific & Industrial Research (DSIR) for both the plants. The company has registered significant growth in the past few years on the back of its ability to register its molecules in 25 countries along with healthy domestic demand.
IPL's primary manufacturing units are located in Lucknow, U.P. with an installed annual capacity of 3100 MT for technical. IPL's manufacturing plant is ISO 9001, OHSAS 18001 and ISO 14001 certified. IPL commissioned its new plant at Sandila, Hardoi with an annual installed capacity of 1500 MTPA in December 2015 and increased to 2700 MTPA in FY19 for production of insecticides/fungicide technical taking its overall installed capacity to 5800 MTPA.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	255.12	351.36
PBILDT	57.87	71.18
PAT	33.01	44.50
Overall gearing (times)	0.32	0.33
Interest coverage (times)	13.84	12.45

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
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/ ST-Working Capital Demand loan	-	-	-	45.00	CARE A-; Positive / CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A2+
Fund-based - LT-Term Loan	-	-	Dec, 2020	2.99	CARE A-; Positive

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/ ST-Working Capital Demand loan	LT/ST	45.00	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (24-Dec-18)	1)CARE A-; Stable / CARE A2+ (27-Nov-17)	1)CARE A-; Stable / CARE A2+ (30-Dec-16)
2.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2+	-	1)CARE A2+ (24-Dec-18)	1)CARE A2+ (27-Nov-17)	1)CARE A2+ (30-Dec-16)
3.	Fund-based - LT-Term Loan	LT	2.99	CARE A-; Positive	-	1)CARE A-; Stable (24-Dec-18)	1)CARE A-; Stable (27-Nov-17)	1)CARE A-; Stable (30-Dec-16)

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

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 Contact
Group Head Name: Ms Ravleen Sethi
Group Head Contact no: 011 - 4533 3278
Group Head Email ID: ravleen.sethi@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.

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