

India Pesticides Limited

November 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	9.80 (reduced from 13.20)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long/Short term Bank Facilities	48.00 (enhanced from 45.00)	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)	Reaffirmed
Short-term Bank Facilities	15.00 (15.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	72.80 (Rs. Seventy two crore and eighty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of India Pesticides Limited (IPL) takes into account the improvement in the profitability margins along with comfortable capital structure and debt protection metrics. The ratings continue to derive strength from the long-standing experience of the promoters in the pesticides industry, established track record of its 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 and exposure to fluctuations in raw material prices and foreign currency exchange rates, vulnerability of operations to agroclimatic conditions and fragmented & competitive nature of the pesticide industry.

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

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 PNB and Indian Overseas Bank. Mr Agarwal is assisted by his two sons Mr. 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. Further, the strategy of the company over the last 5 years has been to focus on export markets to reduce its dependence on domestic market and improve profitability margins. The products of IPL are registered in about 22 countries including France, Portugal, Mexico, Iran and Turkey being the top 5 buyers during FY17.

Improvement in financial risk profile

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

IPL has witnessed improvement in its financial risk profile as characterized by improvement in profitability margins, capital structure and coverage indicators. IPL's total operating income, however remained stagnant at Rs.230.29 crore in FY17 (PY: 236.06 crore) on account of decrease in sales from export markets from Rs.133.89 crore in FY16 to Rs.105.02 crore in FY17 which were attributable to high one time exports in FY16 and lower sales realizations.

There has been consistent increase in profitability margins as reflected by increase in PBILDT margin from 22.13% to 26.82% and PAT margins from 12.25% to 15.39% from FY16 to FY17 on account of benefits accruing from greater economies of scale, reduction in raw material costs and focus on high margin products. The overall gearing has also improved from 0.92x as on March 31, 2016 to 0.40x as on March 31, 2017 on account of scheduled repayments of term loans and accretion of profits to reserves leading to increase in the net worth.

Key Rating Weaknesses

Customer concentration risk and exposure to fluctuations in raw material prices

During FY17, the company's top 4 customers accounted for ~44% of the net sales. Although, a substantial part of sales are dependent over a small number of customers, nearly 80% of these sales are institutional sales made to companies with long standing track record with prominent presence in the domestic and international market. 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 43% of the revenue of IPL in FY17 has been from exports which expose company to inherent risk of foreign exchange fluctuation. However, IPL also imported about 21% of its raw material requirement in FY17, which provides natural hedge to some extent. Further, the company hedges about 50% of its total forex exposure by booking forward contracts.

Highly competitive domestic industry due to fragmentation

The pesticides industry is marked by heavy fragmentation with absence of any player having sizeable market share. Traditionally, MNCs have focused on developing patented molecule whereas the Indian players have concentrated on marketing generic and off-patent products with little expenditure on R&D. 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.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

IPL was established in 1973 as a partnership firm and subsequently, converted into a public limited company in 1984. The company is promoted by Mr. Anand Swarup Agarwal, a first generation entrepreneur, who has over four decades of experience in the agro-chemicals industry. IPL is engaged in the manufacturing of various types of pesticides (technical & formulations) and pharmaceutical intermediates. Pesticides contribute about 85-90% of the total sales (technical 65-70% and formulations 15-20%), while pharmaceutical intermediates contribute about 10-15% to the total sales of IPL.

Insecticides, IPL is mainly engaged in the manufacturing of fungicides. The manufacturing plant of the company, located at Lucknow, UP is ISO 9001, OHSAS 18001 and ISO 14001 certified. IPL has also operationalized its new manufacturing facility at Sandila, Hardoi, UP in December 2015.

During FY17 (refers to the period April 01 to March 31), IPL achieved a PAT of Rs.35.44 crore on a total operating income of Rs.230.29 crore as against PAT of Rs.28.91 crore on a total operating income of Rs.236.06 crore during FY16. As per the unaudited results for H1FY18, IPL achieved a PAT of Rs.23.30 crore on a total operating income of Rs.137.73 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	236.06	230.29
PBILDT	52.24	61.77
PAT	28.91	35.44
Overall gearing (times)	0.92	0.40
Interest coverage (times)	6.48	10.82

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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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/ ST-Working Capital Demand loan	-	-	Sep-20	48.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A2+
Fund-based - LT-Term Loan	-	-	-	9.80	CARE A-; Stable

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/ ST-Working Capital Demand loan	LT/ST	48.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (30-Dec-16)	1)CARE BBB+ / CARE A3+ (16-Jun-15) 2)Suspended (30-Apr-15)	1)CARE BBB+ / CARE A3+ (07-Apr-14)
2.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2+	-	1)CARE A2+ (30-Dec-16)	1)CARE A3+ (16-Jun-15) 2)Suspended (30-Apr-15)	1)CARE A3+ (07-Apr-14)
3.	Fund-based - LT-Term Loan	LT	9.80	CARE A-; Stable	-	1)CARE A-; Stable (30-Dec-16)	1)CARE BBB+ (16-Jun-15)	-

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