India Pesticides Limited

December 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	6.40 (reduced from 9.80)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Reaffirmed
Long/Short term Bank Facilities	45.00 (reduced from 48.00)	**CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)**	Reaffirmed
Short-term Bank Facilities	15.00	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**66.40 (Rupees sixty six crore and forty 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 healthy 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 agro climatic conditions and fragmented & competitive nature of the pesticide industry.

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.

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. 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 products of IPL are registered in about 22 countries including USA, Japan, France, Portugal and Turkey being the top 5 buyers during FY18 (refers to the period from April 1 to March 31). The company's focus has been to explore new technical grade pesticides for exports to increase the scale and profitability margin.

Comfortable financial risk profile

The financial risk profile of IPL is comfortable characterized by stable profitability margins, healthy capital structure and comfortable coverage indicators. IPL has reported steady growth in the operating income over the past few years on the back of healthy domestic demand and with significant market share for few technical products in the export market. The total operating income in FY18 grew by around 11% on y-o-y basis despite decline in exports which was compensated by strong growth in formulations and pharma intermediaries. However, The PBILDT margin has marginally moderated in FY18 to 22.69% as compared with 26.82% in FY17 owing to increase in raw material prices which could not be completely passed on to its customers leading to contraction in operating margin. The overall gearing of the company continued to remain low at 0.32x as on March 31, 2018 (as compared with 0.39x as on March 31, 2017) with healthy profitability and accretion to reserves. The operating cycle of the company continues to remain high (increased from 127 days in FY17 to 144 days in FY18) owing to high credit period to one of the main export client of IPL which is, however backed by LC with usance up to 180 days.

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

Liquidity
IPL has sanctioned working capital limits of Rs.45.00 crore from Bank of India. The WC limits are largely utilized in the form of Pre-shipment and Post-shipment packing credit. The average unutilized working capital limits are 47% providing adequate buffer to meet any financial exigency. The company has investments in liquid mutual funds which stood at Rs.2.71 crore as on March 31, 2018 along with free cash and bank balance of Rs.2.30 crore as on March 31, 2018.

Industry Outlook
There has been continuous fall in the arable land and changing consumption patterns of agricultural produce. Due to this it is imperative that India's farm sector substantially improves its productivity. Indian crop protection industry provides ample growth opportunities due to relatively low consumption as compared with other countries. The per-hectare consumption of agro-chemicals is under 1 Kg – one of the lowest amongst the major economies of the world. India's crop protection industry can be classified primarily into four segments – insecticides, fungicides, herbicides and bio-pesticides. While insecticides constitute a higher proportion fungicides and herbicides are the fastest growing segments of the Indian crop care industry. Shortage of farm labour and increasing concerns about the affordability of labour costs have been the primary drivers for the growing popularity of herbicides. The seasonality and weather conditions affect their demand, with damp and warm weather conditions abetting the breeding of weeds.
In FY18, the raw material prices sky-rocketed due to rising crude oil prices. Further supply constraints emanating from the shut-down in China of industries supplying raw materials to the agrochem manufacturers on pollution concerns, affected India's agrochem industry. The crop protection industry largely consumes crude oil-linked raw materials. Thus sharp fluctuations in crude oil prices adversely affect the profitability of pesticide manufacturers. IPL's raw material include chlorine, carbon di-sulphide and THPA where the variation in crude oil prices is limited to 20% - 30% and hence the profitability has not been adversely impacted in the past few years when the crude oil prices were highly volatile. Going forward, government's commitment to double farmer's income by 2022, growing penetration of irrigation facilities, and increasing popularity of crop insurance schemes may help in reducing farm distress and help the agrochem industry grow at a faster pace.

Key Rating Weaknesses
Customer concentration risk and exposure to fluctuations in raw material prices
During FY18, the company's top 4 customers accounted for ~41% 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. 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 35% of the revenue of IPL in FY18 has been from exports which expose company to inherent risk of foreign exchange fluctuation. However, IPL also imported about 24% of its raw material requirement in FY18, 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]

[CARE's Methodology for Pesticide Sector](#)
[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% of the total sales (technical 58%-60% and formulations 27-30%), while pharmaceutical intermediates contribute about 10-15% to the total sales of IPL. In pesticides, IPL is mainly engaged in the manufacturing of fungicides. The company has two manufacturing sites, one at Lucknow , U.P. and the other at Sandila, Hardoi U.P.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	230.29	255.12
PBILDT	61.77	57.87
PAT	35.13	32.44
Overall gearing (times)	0.39	0.32
Interest coverage (times)	10.82	13.84

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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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-; Stable / CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A2+
Fund-based - LT-Term Loan	-	-	December 2020	6.40	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 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/ ST-Working Capital Demand loan	LT/ST	45.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Nov-17)	1)CARE A-; Stable / CARE A2+ (30-Dec-16)	1)CARE BBB+ / CARE A3+ (16-Jun-15) 2)Suspended (30-Apr-15)
2.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2+	-	1)CARE A2+ (27-Nov-17)	1)CARE A2+ (30-Dec-16)	1)CARE A3+ (16-Jun-15) 2)Suspended (30-Apr-15)
3.	Fund-based - LT-Term Loan	LT	6.40	CARE A-; Stable	-	1)CARE A-; Stable (27-Nov-17)	1)CARE A-; Stable (30-Dec-16)	1)CARE BBB+ (16-Jun-15)

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