Indogulf Cropsciences Ltd (ICL)

April 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	105.00 (50.00)	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	26.20 (10.00)	CARE A3 [A Three]	Reaffirmed
Total Facilities	**131.20 (60.00) (Rupees one thirty one crore and twenty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Indogulf Cropsciences Limited (ICL) takes into account long-standing experience of the promoters in the pesticide industry and established track record of operations**,** comfortable financial risk profile characterized by growing scale of operations in FY19 (refers to period from April 01 to March 31), moderate overall gearing and adequate liquidity position. The ratings further derive strength from its wide range of products and strong distribution network. However, these rating strengths are partially offset by working capital intensive operations, foreign currency fluctuation risks, regulatory risks, competitive and fragmented industry structure and high dependence on climatic conditions.

Positives

- Increase in total operating income by 20% or more on a sustained basis going forward without impacting its profitability margins.
- Improvement in the Overall Gearing ratio (Overall Gearing below 0.50x on a sustained basis in future).

Negatives

- Decline in income by more than 20% or decline in PBILDT Margin by more than 150 bps from the current levels on a sustained basis.
- Deterioration in its Capital Structure with Overall Gearing of more than 1.00x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations in agro-chemical industry: Mr. Om Prakash Aggarwal (Founder Chairman and Managing Director of the company) has more than two decades of experience in Agro-Chemical industry. The company started modest operations with fully automatic plant of zinc sulphate located in Nathupur, Haryana. The company under the guidance and supervision of Mr. Aggarwal established technical pesticide manufacturing unit in Haryana in 1996. Subsequently over the years, the company has set up a pan India marketing network, forayed into international market with exports and widened the product offering with new product registrations.

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

Comfortable financial risk profile: The Company has registered growth in the scale of operations with TOI increasing y-o-y by 34.18% from Rs. 331.65 crore in FY18 to Rs. 445.66 crore in FY19 driven by increasing sales in technical segment and increased export sales. The PBILDT margin remains stable at 7.13% in FY19 (PY: 7.15%) and PAT margin improved from 2.64% in FY18 to 3.40% in FY19. The company's debt profile (outstanding as on March 31, 2019) comprise of 82% working capital loan (in form of cash credit/Overdraft/ Post-shipment limits/ Packing Credit limits), 9% in the form of unsecured loan from directors (with an interest rate of 9% and no fixed repayment schedule), 4% towards outstanding term loans and balance 4% towards finance lease liability. The total debt of the company has decreased from Rs. 67.53 crore as on March 31, 2018 to Rs. 55.26 crore as on March 31, 2019, primarily because of decrease in the working capital borrowings from Rs. 50.29 crore as on March 31, 2018 to Rs. 45.57 crore as on March 31, 2019 and repayment of unsecured loans from promoters. The overall gearing (including LC acceptances) of the company stood moderate at 0.80x as on March 31, 2019 (as compared with 0.78x as on March 31, 2018).
Further, during H1FY20 (refers to period from April 01, 2019 to September 30, 2019) TOI of the company has increased from Rs. 236.65 crore in H1FY19 to Rs. 317.53 crore in H1FY20; registering a y-o-y growth of 34.18% on account of increase in the export sales. The PBILDT level stood at Rs. 20.86 crore in H1FY20 as against Rs. 16.10 crore in H1FY19. Total debt increased from Rs.55.26 crore as on March 31, 2019 to Rs. 81.27 crores as on September 30, 2019 on account of increased working capital borrowings.

Wide product portfolio and distribution network: The Company caters to a wide range of diversified pesticides (technical and formulations) in insecticides, Fungicides, Herbicides and Plant Growth Regulators (PGR). The company has product registration for more than 410 formulations for domestic market, 30 technical manufacturing licenses and 75 for exports, besides other licenses in various stages of approval in the international market. The company has pan India presence through 23 branches which distributes the product through a network of more than 3000 distributors. The sales through distributors/dealers account for 60% of the total revenues. The balance 40% are supplied to the end-user directly like technical and formulation which is an intermediate product for these companies which include, UPL, Kribhco, India Insecticides Ltd. ICL also exports to countries like Ethiopia, Pakistan, Bangladesh, Egypt, Iran, Iraq, Jordan, Saudi Arabia, Syria, Lebanon, Nepal etc.

Adequate Liquidity: Pesticide sector being a highly working capital intensive industry characterized by long collection period and high inventory holding. The liquidity profile of the company remains adequate marked by improvement in operating cycle to 122 days in FY19 (PY: 154 days) due to improvement in average inventory holding period to 96 days in FY19 (PY: 138 days) and average collection period to 84 days in FY19 (PY: 88 days). The company imports 20% of its raw material requirement out of which around 90% material requirement is from China against DA (documents against acceptance) or LC with usance period between 90 days to 180 days. The company accordingly extends a similar credit period to its customers. Trade receivable of the company increased from Rs. 89.90 crore as on March 31, 2018 to Rs. 115.16 crore as on March 31, 2019 and Rs. 167.60 crores as on December 31, 2019 due to increased scale of operations. During the 12-month period ending November, 2019, average working capital utilization at maximum level stood moderate at 73.63%. The cash and bank balances has increased from 1.55 crore on March 31, 2018 (including Rs. 1.33 crores of fixed deposits lien marked as margin money for LC) to Rs. 25.66 crore as on March 31, 2019 (including Rs. 25.43 crores of fixed deposits lien marked as margin money for LC). Company had scheduled debt repayment of around Rs. 2.07 crores in FY20 against expected GCA of Rs. 25.37 crores for FY20.

Industry Outlook

The Pesticide Industry in India is growing rapidly and is marked by the presence of large number of unorganized players (technical grade manufacturers and formulators). CARE expects India's agrochemical industry, in terms of active ingredient (technical grade) production to be around 246 (000' tonnes) by FY22. The key growth drivers are India's capability in low cost manufacturing, availability of technically trained manpower, seasonal domestic demand, better price realization globally, strong presence in generic pesticide manufacturing.

No major impact from the spread of COVID-19 has been witnessed so far. However, situation remains evolving which may affect procurement for upcoming kharif season. China accounts for over 50% of total agrochemical imports of India and currently the proportion continues to remain at similar level with some moderation. Given the fact that domestic manufacturers already knew the COVID 19 situation of China, most of the manufacturers had sufficient time to make alternative arrangements for short term. The situation is still evolving with capacity utilization in Chinese factories at around 30% and other major importing destinations facing the COVID 19 closure.

Key Rating Weaknesses

Working capital intensive nature of the industry: The agrochemical and pesticides industry is characterized by high inventory period on account of seasonality in sales. Due to seasonal demand, the company has to stock inventory before the beginning of harvest season thereby increasing the inventory holding cost. 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 plant protection chemicals. Therefore, providing credit is necessary to stimulate demand. High competition and low off-take often necessitates longer credit period. Credit period extends till the harvest of crops. These factors result in high working capital requirement for companies like ICL. The company relies on bank borrowings and unsecured loans from promoters to fund its operating cycle and the average working capital utilization remained moderate for the past 12 month period ended November 2019 at around 73.63%.

Exposure to agro-climatic conditions: India has four major climatic regions which results in wide variations in rainfall and pattern of agriculture across the country. The prospect of agro chemical industry is dependent on the prevailing agro climatic condition in the particular region. To mitigate the risk associated with regional variations, ICL has diversified itself across various geographies with pan India presence.

Exposure to foreign exchange fluctuation risk: The Company is exposed to the risk associated with volatility in the exchange rates as it exports to many countries and imports raw material majorly from china. Company's export sales have increased from Rs. 28.45 crores in FY18 (8.62% of total income) to Rs. 50.8 crores in FY19 (11.55% of total income) and Rs. 60.28 crores in H1FY20 (19.04% of total income in H1FY20). During FY19, ICL imported about 20% of its raw material requirement (out of which 90% are from China), which provided a natural hedge to some extent. Company does not engage in any hedging activities. Further, during FY19, the company booked a net forex loss of Rs. 1.64 crore (PY: net loss of Rs. 0.27 crores). Nonetheless, any adverse foreign currency movement may have a bearing on the financial profile of the company.

Ongoing Capex

During 9MFY20 (refers to period from April 01, 2019 to December 31, 2019), Company has incurred capex of around Rs. 26 crores for setting up a new guest house in Ashok vihar, Delhi, it has raised a term loan of Rs. 18.00 crore for the same and rest was from internal accruals.

Company is also under process of establishing a new Multi-Specialty Unit at Badwasani, near Sonipat in Haryana, for manufacturing of formulations (Insecticides, Herbicides, fungicides etc.) and technical. Currently ICL's capacity utilization is around 80-90% and with increasing scale of operations, company has decided to set up a new manufacturing unit. The total cost of the project is estimated to be around Rs. 22 crores (Land & Building cost: Rs. 14.70 crores and machinery cost: Rs. 7.30 crores), capex is currently In process & ICL has projected to raise a term loan of Rs. 20 crores for the project, however it is yet to be tied up and currently capex is being done from internal accruals. The project is expected to be completed and operational from January 2021.

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
Indogulf Cropsciences Ltd (ICL) was originally incorporated in January 22, 1993 under the name and style "Jai Shree Rasayan Udyog Limited". The name of the company was subsequently changed to the present one in April 2015. The company is engaged in the manufacturing of technical grade, trading and formulation of pesticides, crop nutrients and plant growth enhancers. The company has 3 manufacturing plants with two Technical plants located in Nathupur in Haryana and a formulation plant in Jammu. The installed capacity of technical grade plant stood at 1360 metric tons per annum (MTPA) and formulation capacity (comprising of liquids, powders and granules) up to 14,600 MTPA.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	331.65	445.66
PBILDT	23.70	31.78
PAT	0.78	0.80
Overall gearing (times)	0.78	0.80
Interest coverage (times)	4.92	5.20

A: Audited

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

Status of non-cooperation with previous CRA: NA

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-Term Loan	-	-	Nov, 2024	29.00	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	76.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	26.20	CARE A3

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-Term Loan	LT	29.00	CARE BBB; Stable	1)CARE BBB; Stable (09-Apr-19)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	76.00	CARE BBB; Stable	1)CARE BBB; Stable (09-Apr-19)	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	26.20	CARE A3	1)CARE A3 (09-Apr-19)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. CC	• Additional Interest of 18% p.a. on overdue/ delays/ defaults of any monies payable.
2. LC	• Commission of 1% per (month/quarter/annum) to be charged
B. Non-Financial Covenants	
1. CC	• Stock statement to be submitted (monthly / bi-monthly / quarterly) with ageing detail, on or before the 7th day of the month.
2. LC	• Import LC's may be issued at sight and/or usance tenor of upto 180 days

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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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.

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