# Indogulf Cropsciences Ltd

April 09, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 50 | **CARE BBB; Stable [Triple B; Outlook: Stable]** | Assigned |
| Short-term Bank Facilities | 10 | **CARE A3 [A Three]** | Assigned |
| **Total Facilities** | **60 (Rupees sixty crore only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of Indogulf Cropsciences Ltd take 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, low overall gearing and healthy 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.

Going forward, improvement in profitability while increasing the scale of operations without any adverse impact on the capital structure and effective working capital management will remain the key rating sensitivities.

**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.

***Comfortable financial risk profile:*** The company has registered stable growth in the scale of operations with a compounded annual growth rate of around 12% over the three year period ending March 2018. ICL reported y-o-y growth of 22% in FY18 on the back of volume growth in other agro-chemicals and healthy realization for pesticides. The improved realization were supported by the new products (two insecticides and one herbicide) introduced during FY18 (refers to the period from April 1 to March 31). The company's debt profile (outstanding as on March 31, 2018) comprise of 74% working capital loan (in form of cash credit/Overdraft/ Post-shipment limits/ Packing Credit limits), 17% in the form of unsecured loan from related parties, 4% towards outstanding term loans and balance 4% towards finance lease liability. The overall gearing of the company stood comfortable at 0.74x as on March 31, 2018 (as compared with 0.71x as on March 31, 2017). The marginal increase in overall gearing has been on account of loan from related parties from Rs.8.98 crore as on March 31, 2017 to Rs.11.66 crore as on March 31, 2018 on account of accrued interest. The overall operating cycle of the company remains high on account of high inventory holding (for wide product base of technical and formulations) in line with the industry trend. The credit period to customers is extended in accordance with the credit period received from the suppliers of raw materials/ intermediate products depending upon the usance period of LC backed purchases or the clean credit (documents against acceptance) which usually vary between 90 days to 180 days.

***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 Bangladesh, Egypt, Iran, Iraq, Jordan, Saudi Arabia, Syria, Ukraine, Russia, Lebanon, Nepal and Qatar.

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

***Liquidity:*** Pesticide sector being a highly working capital intensive industry characterized by long collection period and high inventory holding, the working capital utilization of the company remains high (around 95% at any point in time). The promoters in order to improve liquidity and support business operations have infused Rs.2.69 crore as unsecured loan during FY18. The free cash balance as on March 31, 2018 stood at Rs.1.50 crore.

**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 to fund its operating cycle and the average working capital utilization (overdraft) remained high for the past 12 month period ended January 2019 at around 96%, whereas the Packing credit/Post-shipment finance remains fully utilized (availed for limited exports done by the company). The inventory holding of the company was 137 days during FY18 as against 166 days during FY17 which primarily contributed towards company's elongated operating cycle.

***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 has moderate export and import transactions which subjects it to risk associated with volatility in the exchange rates. However, the company has been a net importer and since the company has a natural hedge mechanism to some extent the company is selective in booking forward transactions. The unhedged foreign currency transaction as on March 31, 2018 was Rs. 5.39 crore as against Rs.10.97 crore as on March 31, 2017. However the company is exposed to the currency fluctuation and its ability to realize and pass on the cost burden to end consumer. Further, the company booked forex loss during FY18 amounting to Rs. 0.25 crore (Rs. 0.09 crore in FY17). Nonetheless, any adverse foreign currency movement may have a bearing on the financial profile of the company.

**Analytical approach:** Standalone

**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 methodology for manufacturing companies
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) | FY17 (A) | FY18 (A) |
|---|---:|---:|
| Total operating income | 268.00 | 328.89 |
| PBILDT | 10.27 | 20.19 |
| PAT | 6.44 | 8.85 |
| Overall gearing (times) | 0.71 | 0.74 |
| Interest coverage (times) | 2.79 | 4.19 |

*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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****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-Term Loan | - | - | - | 10.00 | CARE BBB; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 40.00 | CARE BBB; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 10.00 | 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 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-Term Loan | LT | 10.00 | CARE BBB; Stable | - | - | - | - |
| 2. | Fund-based - LT-Cash Credit | LT | 40.00 | CARE BBB; Stable | - | - | - | - |
| 3. | Non-fund-based - ST-BG/LC | ST | 10.00 | CARE A3 | - | - | - | - |

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