

## Krishi Rasayan

December 21, 2020

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	36.00	CARE BBB; Stable (Triple B; Outlook: Stable )	Reaffirmed
Long Term / Short Term Bank Facilities	14.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus )	Reaffirmed
Short Term Bank Facilities	40.00	CARE A3+ (A Three Plus )	Reaffirmed
<b>Total Bank Facilities</b>	<b>90.00</b> <b>(Rs. Ninety Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Krishi Rasayan continue to draw strength from experienced promoters with long and satisfactory track record, wide product portfolio with strong distribution network, strategic location of manufacturing units and warehouse, moderate financial performance along with moderate capital structure and debt protection metrics. The ratings continue to be constrained by volatility in raw material prices, working capital intensive nature of operations, albeit liquidity position improved in current year, exposure to foreign exchange fluctuation risk, constitution as a partnership firm, high dependence on monsoon as well as highly regulated and competitive nature of the industry.

#### Rating Sensitivities

##### Positive Factors

- Growth in scale of operations as marked by total operating income of above Rs.450 crore on sustained basis
- Increase in profitability margins as marked by PBILDT margin and PAT margin of above 6.00% and 2.00% respectively on sustained basis.
- Conversion of the constitution of the entity into a corporate

##### Negative Factors

- Any major debt funded capex undertaken by the firm leading to deterioration in credit metrics.
- Inability of the firm to maintain unsecured loan in system at current level on sustained basis.
- Withdrawal of substantial amount of capital.
- Deterioration in overall gearing above 1.50 times on a sustained basis.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### *Experienced promoters with long and satisfactory track record*

The firm is part of the Krishi Rasayan group which is engaged in the business of agrochemicals for five decades and has established itself in the domestic agrochemicals industry. The promoter is engaged in the similar business in joint venture with other promoter through entities namely Krishi Rasayan Exports Private Limited and Agro Life Science Corporation. Mr. Atul Churiwal, Partner, has over 35 years of experience in the agrochemical business and is responsible for the day to day operations of the firm. He is supported by a team of experienced professionals.

##### *Wide product portfolio and strong distribution network*

KR's products are extensively used in the agricultural industry. The firm only deals with generic/off-patented agrochemicals where it sources the active ingredient and then formulates the end product based on its own specifications. KR has more than 170 products in its portfolio which are sold in various SKUs (from 10 grams to 25 kg packs) and all the products are registered with the Central Insecticides Board and Registration Committee (CIBRC). The products have a shelf-life of around 2 years. KR sells its product through more than 1,300 distributors across Odisha, West Bengal, Tamil Nadu, Karnataka and Assam. The firm has dedicated warehouses in each region from where the products are distributed to the end users.

##### *Strategic location of manufacturing units and the warehouse*

The manufacturing facilities of KR are located at Ranital, Orissa and Kolkata, West Bengal. The finished goods from both facilities are distributed to all the states in which the firm operates. The manufacturing facilities are in close proximity to the Khidderpore Port near Kolkata which enables easy transportation of raw material and export of finished goods.

**Moderate financial performance**

The total operating income of KR has increased from Rs.243.71 crore in FY19 to Rs 324.11 crore in FY20 (y-o-y growth of ~33%). The increase in revenue was majorly attributable to increase in trading sales. The PBILDT and PAT margins of the firm have declined from 7.05% and 1.89% in FY19 to 5.60% and 1.71% in FY20 respectively due to increase in cost of raw materials coupled with increase in trading sales which command lower margins, however; at the absolute level the profitability has improved marginally.

In H1FY21, KR has reported PBILDT and PAT of Rs.9.51 crore and Rs.3.69 crore respectively, on total operating income of Rs.195.74 crore.

**Moderate capital structure and debt protection metrics**

The firm has a moderate capital structure marked by Debt Equity ratio and Overall gearing ratio of 0.32x and 1.31x as on March 31, 2020 vis-à-vis 0.28x and 1.43x as on March 31, 2019. The overall gearing ratio has improved on account of lower utilisation of working capital limits as on balance sheet date coupled with accretion of profits to partner's capital. The debt protection metrics of KR are also moderate marked by TD/GCA and Interest coverage 11.41x and 2.00x in FY20 vis-à-vis 13.88x and 1.81x in FY19 respectively.

**Key Rating Weaknesses****Volatility in raw material prices**

The major raw materials for KR include active ingredients (technical grade molecules), emulsifiers and solvents. The prices of solvents and emulsifiers are linked to crude oil prices hence are volatile in nature. The active ingredients are primarily sourced from China, Hong Kong, Singapore and Taiwan. The prices depend upon the quality and effectiveness of these ingredients and the firm generally sources the molecules from selected suppliers in these countries. KR has long term relationship with these suppliers; however, it does not enter into long term contracts. During FY20, the firm imported about 33% of its raw materials consumed vis-à-vis 52% in FY19. The decline in imports is on account of spread of Covid-19 in China from the month of December'2019.

**Working capital intensive nature of operations**

The agrochemicals industry is highly working capital intensive in nature owing to the seasonality factor in the business. The demand for the products is high during crop sowing season and it also depends on the success or failure of the monsoon season. KR is required to maintain large inventory of its products before the season starts. KR is also required to stack up large inventory of raw materials such as emulsifiers and solvents in order to cope up with the sudden increase in demand which depends on the success of the crop season which is unpredictable. The high inventory and collection period results in large working capital requirement which is met to an extent by the creditor's period of around three to four months. In FY20, the working capital cycle stood at 118 days vis-à-vis 173 days in FY19. Despite being working capital intensive, the fund based limit utilisation had remained moderate at ~68% during last 12 months ended Oct'2020, due to improved working capital requirement.

**Foreign currency fluctuation risk**

KR is exposed to foreign currency fluctuation risk as it imports significant amount of its raw material requirement. Imported raw material accounts for around 33% of the total raw material cost of the firm. Though the firm also exports, it constitutes a small portion of sales (Rs.33.80 crore in FY20 as against Rs.22.36 crore in FY19). The firm hedges its forex payments 60-90 days before the payments due dates after considering the hedging cost involved. The firm reported a forex gain of 0.88 crore in FY20 vis-à-vis forex loss of Rs.1.68 crore in FY19.

**Constitution as a partnership firm with risk of withdrawal of capital**

KR is a partnership firm and the inherent risk for withdrawal of capital remains. During FY20, partners had withdrawn Rs.0.70 crore from partners' capital. However, Net worth did not decline due to accretion of profit to reserve. Further, management has maintained that the firm is in process of getting converted into a corporate.

**Highly dependent upon monsoon and climatic conditions**

The agrochemicals industry derives its sales from the agriculture sector, the performance of which is highly dependent upon the monsoon as well as incidence of fungal/pest attack on crops. The firm has wide presence in various states in eastern, southern and western part of the country which mitigates the risk to some extent.

**Highly regulated and competitive nature of operations**

The pesticides industry is marked by high fragmentation with the absence of any player having sizeable market share. The intense competition leads to competitive pricing and lower margins. The agrochemical industry is a highly regulated industry

due to prohibited usage of certain molecules owing to their toxic nature. The pesticides are regulated products and require prior registration with CIBRC before they are allowed to be sold.

### **Outlook for the agro chemical industry**

During FY20, the production of technicals witnessed a fall due to volatility in raw material prices and delay in start of monsoon which made producers postpone their product launches. Total agrochemical exports had also contracted by 2% during FY20. Despite the abovementioned facts of FY20, the domestic demand for agrochemicals is expected to rise with a need to increase farm output to meet food requirements of the growing population, decrease in arable land and loss of yield due to pest attacks. Going forward, due to the timely onset of monsoons, plaguing locust attack on the Indian subcontinent and the recent proposals under the 'Aatmanirbhar Bharat' package pertinent towards the agrarian economy which are focused on boosting the agriculture and allied sector, demand for agrochemicals for the rest of FY21 seems sanguine for the industry.

Further, since pesticides are placed under the essential commodities category, the agrochemicals industry wouldn't be impacted much due to the ongoing pandemic. However, Indian manufacturers heavily depend on imports from China for raw materials and given the prevalent anti-China sentiments in the country they are likely to face input constraints along with other challenges viz availability of labour and staggered timing of plant operations due to COVID-19.

### **Liquidity: Adequate**

The liquidity position of the firm is adequate with average of maximum working capital fund based utilization of ~68% and non-fund utilization of ~65% for 12 months ended October, 2020. The GCA of the firm stood Rs.7.22 crores in FY20 as against negligible debt repayment. The firm operates in a working capital intensive industry marked by high inventory holding period and collection period. On account of the pandemic induced lockdown, the firm had to shut down its manufacturing facilities for 1 and half months. The firm resumed business operations by mid-May'2020. The firm had taken first tranche of moratorium from Axis Bank and has repaid the same in June'2020. Further, the firm has also availed Covid Emergency Line of Credit of Rs 3.70 crore (disbursed amount- Rs 3.50 crore) from UCO Bank.

**Analytical approach:** Standalone

### **Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology-Manufacturing Companies](#)

[CARE's methodology for Pesticide companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

### **About the Firm**

Krishi Rasayan (KR) was established as a partnership firm in 1966 by Mr. Parmanand Churiwal, father of the present Managing Partner Mr. Atul Churiwal. It is engaged in manufacturing and formulation of agrochemicals such as pesticides, fungicide, weedicide, insecticide, herbicide and Plant Growth Regulators (PGR), etc which are used in the agricultural sector by farmers to protect their crops from insects, weeds and pests as well as to improve yield. It set up its first plant in Odisha and commenced commercial production in 1967. The second manufacturing unit in Kolkata, West Bengal (Unit II) was commissioned in the year 2010. The firm also trades in agrochemicals.

<b>Brief Financials (Rs. crore)</b>	<b>FY19 (A)</b>	<b>FY20 (A)</b>
Total operating income	243.71	324.11
PBILDT	17.17	18.14
PAT	4.62	5.55
Overall gearing (times)	1.43	1.31
Interest coverage (times)	1.81	2.00

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

**Covenants of rated instrument / facility:** Not Applicable

**Complexity level of various instruments rated for this firm:** Annexure-3

**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-Cash Credit	-	-	-	36.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	40.00	CARE A3+
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	14.00	CARE BBB; Stable / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	36.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Jan-20)	1)CARE BBB+; Stable (27-Mar-19) 2)CARE BBB+; Stable (05-Apr-18)	1)CARE BBB+; Stable (14-Apr-17)
2.	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A3+	-	1)CARE A3+ (07-Jan-20)	1)CARE A2 (27-Mar-19) 2)CARE A2 (05-Apr-18)	1)CARE A2 (14-Apr-17)
3.	Fund-based - ST-Working Capital Demand loan	-	-	-	-	1)CARE A3+ (07-Jan-20)	1)CARE A2 (27-Mar-19) 2)CARE A2 (05-Apr-18)	1)CARE A2 (14-Apr-17)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	14.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (07-Jan-20)	1)CARE BBB+; Stable / CARE A2 (27-Mar-19) 2)CARE BBB+; Stable / CARE A2 (05-Apr-18)	1)CARE BBB+; Stable / CARE A2 (14-Apr-17)

**Annexure-3: Complexity level of various instruments rated for this Firm**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT/ ST-CC/Packing Credit	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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