NACL Industries Limited (Erstwhile Nagarjuna Agrichem Ltd)

October 03, 2017

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	224.50 (reduced from 227.78)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Revised from CARE BBB+;Positive [Triple B Plus; Outlook: Positive]
Short-term Bank Facilities	113.00	**CARE A2 [A Two]**	Revised from CARE A3+ [A Three Plus]
Total Facilities	**337.50 (Rupees Three hundred and thirty seven crore and fifty lakh only)**		

Detailed Rationale & Key Rating Drivers

The revision in the ratings of NACL Industries Limited takes into account improved financial performance during FY17 (refers to the period April 01 to March 31) marked by increase in the total operating income and profitability margins, realization of the pending insurance claim which led to easement of working capital and improvement in the operational performance. The ratings also factor in established track record of the company in the pesticide business, experienced management and diversified product range with presence across the domestic and international markets.

The ratings, however, are constrained by moderate overall gearing, dependence upon monsoon and climatic conditions, exposure to foreign exchange fluctuation risk and working capital intensive nature of the operation.

The ability of the company to scale up its operations, introduce new products in both technical and formulations segments and improve its profitability margins are the key rating sensitivities.

Detailed description of the key rating drivers

Key rating strengths

Improved operational performance during FY17

During FY17, the capacity utilization of the company in technical and formulation divisions have been increased to 78% and 100% respectively, primarily on account of good monsoon compared to the last two years.

Stable growth in total operating income with improved profitability margins

The total operating income of the company has grew by ~6% i.e. from Rs.690.87 crore during FY16 to Rs.731.61 crore in FY17, primarily on account of better monsoon compared to the last two years. During Q1FY18, the company has achieved revenue of Rs. 167.44 crore as against Rs.159.76 crore in Q1FY17. The profitability margins of the company have improved during FY17 on account of improvement in the revenue, introduction of new products in the market and receipt of pending insurance claim.

Established track record and experienced management in pesticide industry

NACL has been engaged in the operation of manufacturing and selling of pesticides for more than two decades. Mr V Vijaya Shankar, Managing Director (MD) of the company has vast experience in various chemical industries and extensive experience in Fertilizer and Automobile sectors over the last three decades. The MD is supported by a team of qualified and experienced professionals.

Diversified product range and geographically low revenue concentration risk both from domestic and international market:

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

The company's products include the entire range of pesticides such as Insecticides, Fungicides and Herbicides that cater to all the pest problems of major crops grown in India. The company's product portfolio includes over 55 brands with a strong network of about 11,000 dealers across the country. The company has reported around 41.88% of domestic sales and 58.12% of export sales.

Key rating weakness

Moderate capital structure

The debt to equity and overall gearing of the company have improved as on March 31, 2017 as against March 31, 2016. The debt coverage and interest coverage ratios of the company have also improved but remained moderate in FY17.

Highly dependent upon monsoon and climatic conditions

The pesticide industry derives its sales from the agriculture sector which is highly dependent upon monsoons as well as incidence of fungal/pest attack on crops. The large temporal and spatial variation in the rainfall during the season had adverse impact on the productivity and production of major kharif crops over the country except rice.

Exposure to foreign exchange fluctuation risk:

The company is engaged in export and import transactions which subjects it to risk associated with volatility in the exchange rates. On account of foreign exchange fluctuation, the company has incurred a net forex loss during FY17.

Working capital intensive nature of the industry:

The working capital cycle continue to remain elongated. The average operating cycle for the company was at 146 days in FY17 as against 132 days in FY16, primarily on account of high inventory holding period and improved creditor period.

Analytical approach: Standalone

CARE has analyzed NACL's credit profile by considering the standalone financial statements as company doesn't have subsidiaries.

Applicable criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Pesticide Companies
Financial ratios – Non-Financial Sector

About the company

NACL Industries Ltd (Erstwhile Nagarjuna Agrichem Ltd; NACL) was incorporated in September 1996 (Erstwhile Chemagro International Limited). The company has its presence in the agrochemical industry and is engaged in manufacturing of pesticides (viz. Herbicides, Insecticides, Fungicides); both technical and formulations. The company has presence both in domestic as well as exports market with major export destinations being Japan, USA, Australia, Switzerland, Belgium etc. The company is planning to register its brand products in African countries to penetrate into those markets. NACL accessed primary capital market during 1993-94. The company is promoted by Hyderabad-based Nagarjuna Group which has interests in Fertilizers, Power Generation, Oil refinery and Construction. The company's installed capacity in technical division is 7,500 metric tons/kilo liters and 37,800 metric tons/kilo liters in formulation division.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	701.69	745.57
PBILDT	62.49	72.20
PAT	8.98	36.19
Overall gearing (times)	1.48	1.25
Interest coverage (times)	2.06	2.31

Status of non-cooperation with previous CRA: NA

Any other information: NA

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.*

Analyst Contact
Name: Mr D Naveen Kumar
Tel: +91-40-4010 2030
Mobile: +91 8886097382
Email: dnaveen.kumar@careratings.com

****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	-	-	March 2020	49.50	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	113.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	175.00	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-Term Loan	LT	49.50	CARE A-; Stable	-	1)CARE BBB+; Positive (16-Mar-17) 2)CARE BBB+ (10-Oct-16)	1)CARE BBB+ (04-Nov-15)	1)CARE BBB (18-Dec-14)

2.	Non-fund-based - ST-BG/LC	ST	113.00	CARE A2	-	1)CARE A3+ (16-Mar-17) 2)CARE A3+ (10-Oct-16)	1)CARE A3+ (04-Nov-15)	1)CARE A3 (18-Dec-14)
3.	Fund-based - LT-Cash Credit	LT	175.00	CARE A-; Stable	-	1)CARE BBB+; Positive (16-Mar-17) 2)CARE BBB+ (10-Oct-16)	1)CARE BBB+ (04-Nov-15)	1)CARE BBB (18-Dec-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691