NACL Industries Limited

June 07, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	274.39	**CARE A-; Negative [Single A Minus; Outlook: Negative]**	Revised from CARE A-; Stable (Single A Minus, Outlook: Stable)
Short term Bank Facilities	113.00	**CARE A2 [A Two]**	Reaffirmed
Total facilities	**387.39 (Rupees Three hundred and eighty seven crore and thirty nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to the bank facilities of NACL Industries Limited continue to derive strength from established track record of the company in the pesticide business, experienced management, diversified product range with presence across the domestic and international markets. The ratings also factor in equity infusion made during Q4FY19, part of which fostered the company's liquidity profile and strengthened the capital structure during FY19 (refers to the period April 01 to March 31). The ratings, however, are constrained by decline in the profitability margins and financial performance during FY19 owing to operational losses during Q4FY19, dependence on monsoon and climatic conditions, exposure to foreign exchange fluctuation risk and working capital intensive nature of the operation. The ratings also takes cognizance of proposed debt funded capex for the new production unit being set up at the company's Srikakulam plant. The ability of the company to scale up its operations, introduce new products in both technical and formulations segments, improve its profitability margins and manage its working capital efficiently are the key rating sensitivities.

Outlook: Negative

The negative outlook on the rating reflects the weakening of NACL's operational performance during Q4FY19 and FY19 which if continues may impact the overall financial risk profile of the company. The outlook may be revised to 'Stable' if the company is able to demonstrate improvement in its key operational performance indicators.

Detailed description of the key rating drivers

Key Rating Strengths

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. M. Pavan Kumar, Managing Director (MD) of the company has vast experience in various chemical industries and extensive experience across various 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:

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 12,500 dealers across the country. In the total operating income the domestic sales to export sales is 85:15.

Improved capital structure backed by infusion of fresh equity

The company received Rs. 55 crore of fresh equity during Q4FY19 out of total equity commitment of Rs. 115 crore to be received through preferential allotment. The balance Rs. 60 crore would be received by March 31, 2020. The company has entered into a strategic alliance with Krishi Rasayan Exports Pvt Ltd which has a strong foothold in sourcing of raw materials. Resultantly, NACL's overall gearing (including acceptances) improved from 1.39x as on March 31, 2018 to 0.85x as on March 31, 2019 on account of scheduled repayment of term debt and lesser reliance of working capital borrowing aided by the said equity infusion.

Comfortable Liquidity

The working capital cycle of NACL improved from 136 days in FY18 to 115 days in FY19 on account of higher credit period granted by the company's creditors. Additionally, the company's liquidity profile remains comfortable despite cash loss

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

reported in Q4FY19, on account of a portion of the aforementioned equity infusion being utilized towards working capital requirements. The company had cash accruals of Rs. 5.43 crore in FY19 and cash balance of Rs. 6.80 crore as on March 31, 2019.

Key Rating Weaknesses

Deterioration in operational and financial performance in Q4FY19

During FY19, the raw material prices were significantly high as a result of non-availability of raw materials due to closure of manufacturing facilities in China because of environmental/pollution norms. Also, with rupee depreciation the prices of raw material further increased during the period. Apart from this, in lieu of a bad Rabi season in FY19 in light of relatively weak monsoons, the demand for pesticides in the domestic market declined. Resultantly, the company's sales return percentage increased from an average of 3-4% in the past to nearly 8% in FY19. The PBILDT margin of the company declined significantly by 308 bps from 7.50% in FY18 to 4.42% in FY19. As a result, the company reported an operating loss of Rs. 11.26 crore in Q4FY19 and a net loss of Rs. 16.23 crore in Q4FY19 with net loss of Rs. 8.38 crore for FY19.

Proposed debt funded capex for contract manufacturing tie up with UPL Limited

The company had entered into a contract manufacturing agreement with UPL Limited in April 2019, with a 100% buy-back arrangement. The same is expected to generate revenue of over Rs. 70 crore with a steady PBILDT margin of around 20% since the raw material will be provided by UPL as per terms of the agreement. For the said project the company is setting up a new production unit at its Srikakulam plant, Andhra Pradesh, at an envisaged project cost of Rs. 60 crore, to be funded through a debt-equity mix of 0.71:1. The unit is expected to commence operations by December, 2019. Although the financial closure has been achieved, the timely completion of the project without incurring any cost overrun remains critical from credit perspective.

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 of about Rs. 1.00 crore during FY18. Also, with rupee depreciation the prices of raw material further increased during FY19 which impacted the company's margins during the year.

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 – Pesticide Companies
Financial ratios – Non-Financial Sector

About the Company

NACL Industries Limited (erstwhile Nagarjuna Agrichem Ltd; NACL) was incorporated in November 1986 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 has already registered few brand products in African countries i.e Myanmar, Ethiopia and Zambia and further it is in process of registering few more brands. NACL accessed primary capital market during 1993-94 in BSE and NSE on April 07, 2017. The company is promoted by Hyderabad-based Nagarjuna Group which has interests in Fertilizers, Power Generation, Oil refinery and Construction.

NACL is honoured with the "India's Most Trusted Brand and Best Company of the Year-2017" by International Brand Consulting (IBC), USA. This award is a distinctive recognition for a company recognized as, "BEST COMPANY" in its industry category based on current year market standing, innovation, leadership, governance, CSR and other such factors. Futher, Srikakulam Technical unit and Ethakota Formulation unit have also been awarded with the "Best Management Award" by the Government of Andhra Pradesh for Management Practices for the year 2017. Apart from the above, Srikakulam Plant received "Suraksha Puraskar" Award by the National Safety Council of India for the year 2017 for its best Safety Practices. 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)	FY18(A)	FY19 (A)
Total operating income	861.68	891.19
PBILDT	64.66	39.41
PAT	12.05	(8.38)
Overall gearing (times)	1.38	0.85
PBILDT Interest coverage (times)	1.93	1.16

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

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 2021	24.39	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	113.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	250.00	CARE A-; Negative

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	24.39	CARE A-; Negative	-	1) CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (11-Dec-18)	CARE A-; Stable (03-Oct-17)	1)CARE BBB+; Positive (16-Mar-17) 2)CARE BBB+ (10-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	113.00	CARE A2	-	1) CARE A2 (07-Jan-19) 2)CARE A2 (11-Dec-18)	CARE A2 (03-Oct-17)	1)CARE A3+ (16-Mar-17) 2)CARE A3+ (10-Oct-16)
3	Fund-based - LT-Cash Credit	LT	250.00	CARE A-; Negative	-	1) CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (11-Dec-18)	CARE A-; Stable (03-Oct-17)	1)CARE BBB+; Positive (16-Mar-17) 2)CARE BBB+ (10-Oct-16)

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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