NACL Industries Limited

December 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	328.21 (enhanced from 274.39)	**CARE A-; Negative [Single A Minus; Outlook: Negative]**	Reaffirmed
Short term Bank Facilities	58.00 (reduced from 113.00)	**CARE A2 [A Two]**	Reaffirmed
Total facilities	**386.21 (Rupees Three hundred and eighty six crore and twenty one lakh only)**		

Details of facilities in Annexure-I

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 and resourceful management, diversified product portfolio with presence across the domestic and international markets. The ratings also favorably factor in improved financial and operational performance during H1FY20 after a subdued performance during Q4FY19, strategic alliance with Krishi Rasayn group which also fostered the company's liquidity profile as well as capital structure with infusion of equity. The rating strengths, however, are partially offset by, low profitability margins, losses incurred during FY19 (refers to the period April 01 to March 31), operations being susceptible to vagaries of climatic conditions, volatility in raw material prices and elongated operating cycle. The ratings also takes cognizance of ongoing debt funded capex for the new production unit being set up with respect to the contact manufacturing agreement entered with UPL Limited.

Rating Sensitivities

Positive Factors:

- Ability to achieve PBILDT margin of more than 9% on a sustainable basis.

Negative Factors:

- Deterioration of capital structure with overall gearing exceeding 1.20x in any of the projected years.
- Non infusion of the committed equity by March 31, 2020.

Outlook: Negative

The 'negative outlook' on the rating is on account of NACL reporting net loss during FY19 due to significant deterioration of NACL's operational performance during Q4FY19, which if continues may impact the overall financial risk profile of the company. The outlook may be revised to 'Stable' if NACL is able to demonstrate steady improvement in its operational and financial performance on a sustained basis.

Detailed description of key rating drivers

Key Rating Strengths

Established track record and experienced management in pesticide industry

NACL has been engaged in manufacturing and selling of pesticides for more than two decades. Mr. M. Pavan Kumar, Managing Director (MD) of the company has an extensive experience in chemical industries and across various related sectors for more than three decades. The management is supported by a team of qualified and experienced professionals.

Strategic alliance with Krishi Rasayan group

The company has entered into a strategic alliance with Krishi Rasayan group and received Rs. 55 crore of fresh equity during Q4FY19 out of total equity commitment of Rs. 115 crore to be received by March, 2020. Resultantly coupled with scheduled repayment of term debt and lesser reliance of working capital borrowing, NACL's overall gearing improved from 1.39x as on March 31, 2018 to 0.87x as on March 31, 2019. Further, the operational performance of NACL is likely to benefit from the said alliance going forward.

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

The company's products include wide 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

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

of about 12,500 dealers across the country. Also, the company has a healthy mix of domestic and export sales rendering its revenue profile to remain less skewed.

Improvement in financial parameters during H1FY20 after witnessing poor performance in Q4FY19
In lieu of a bad Rabi season in 2019 marred by relatively weak monsoons, the demand for pesticides in the domestic market declined during Q4FY19 and also resulted in relatively higher sales return. This apart, raw material prices were significantly due to closure of manufacturing facilities in China because of environmental/pollution norms. Resultantly, the company reported an operating loss of Rs. 11.26 crore in Q4FY19 and a net loss of Rs. 8.38 crore for FY19. Nevertheless, backed by better monsoon and additional income from launch of new products, NACL's performance improved in H1FY20. The company achieved a TOI of Rs. 503.90 crore in H1FY20 with a steady PBILDT margin of 7.48% for the period.

Contract manufacturing tie up with UPL Limited albeit debt funded capex
The company had entered into a contract manufacturing agreement with UPL Limited with a 100% buy-back arrangement. The same is expected to generate revenue of over Rs. 70 to Rs 90 crore with a steady PBILDT margin of around 20%. For the said project the company is setting up a new production unit 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 commercial operations by January, 2020. Although the progress of the project is on track, timely completion of the project without incurring any cost overrun remains critical from credit perspective.

Stable 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 record a 3.7% compounded growth rate till FY22. Technical grade agrochemicals production is to be 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.

Key Rating Weakness
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 FY19 had an adverse impact on the productivity and production of major kharif crops over the country, which also led to weakening of operational and financial performance of NACL during Q4FY19.

Low profitability on account of volatility in raw material prices and intense competition
Raw material cost is the major cost element for the company which accounts for around 70% to the cost of sales. The major inputs (chemicals compounds) are primarily imported from China, the ongoing closure of manufacturing facilities in China have led to volatility in the raw material availability as well as prices. This has adversely impacted the profitability margins of the company in the past. Also, given the limited pricing flexibility in view of huge competition in the industry the profitability margins of NAPL are expected to remain under pressure.

Elongated operating cycle in FY19
NACL operates in an industry which is characterized by high inventory periods and elongated receivable period on account of the seasonality in sales. The average collection period of the company increased from 106 days in FY18 to 116 days in FY19, although the inventory days shortened to 98 days in FY19, the average operating cycle continues to remain stretched at 131 days in FY19 (FY18: 136 days). Resultantly, the working capital utilisation was high at about 74% for the last 12 months ended August 2019.

Liquidity: Adequate
The company's liquidity position is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs. 6.80 crore as on March 31, 2019 (Rs. 17.09 crore as on September 30, 2019). Its capex requirements are modular and being funded through a debt of Rs.25 crore for which it has sufficient headroom. Its bank limits are utilized to the extent of 74% supported by above unity current ratio.

Analytical approach: Standalone.
Applicable criteria
Criteria on Rating Process
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings

CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology – Manufacturing companies – Pesticide
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. NACL accessed primary capital market during 1993-94 in BSE and NSE on April 07, 2017. NACL has three manufacturing units located in Andhra Pradesh with a total installed capacity of 7,500 MTPA (Metric tonne per annum) in technical division and 37,800 MTPA in formulation division as on March 31, 2019.

Brief Financials (Rs. crore)	FY18(A)	FY19 (A)
Total operating income	861.68	887.01
PBILDT	64.66	36.64
PAT	12.05	(8.38)
Overall gearing (times)	1.38	0.87
PBILDT Interest coverage (times)	1.93	1.08

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: 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	-	-	August 2024	44.21	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	58.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	284.00	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	44.21	CARE A-; Negative	1)CARE A-; Negative (07-Jun-19)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (11-Dec-18)	1)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	58.00	CARE A2	1)CARE A2 (07-Jun-19)	1)CARE A2 (07-Jan-19) 2)CARE A2 (11-Dec-18)	1)CARE A2 (03-Oct-17)	1)CARE A3+ (16-Mar-17) 2)CARE A3+ (10-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	284.00	CARE A-; Negative	1)CARE A-; Negative (07-Jun-19)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (11-Dec-18)	1)CARE A-; Stable (03-Oct-17)	1)CARE BBB+; Positive (16-Mar-17) 2)CARE BBB+ (10-Oct-16)

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

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:
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