September 01, 2022

GSP Crop Science Private Limited: [ICRA]A-(Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Term Loan	115.42	[ICRA]A-(Stable); assigned
Long Term-Fund Based-Working Capital Term Loan	38.39	[ICRA]A-(Stable); assigned
Long Term / Short Term-Fund Based-Others	187.50	[ICRA]A-(Stable)/ [ICRA]A2+; assigned
Long Term / Short Term-Non Fund Based-Others	5.50	[ICRA]A-(Stable)/ [ICRA]A2+; assigned
Short Term-Fund Based/Non Fund Based-Others	15.00	[ICRA]A2+; assigned
Short Term-Non Fund Based-Others	165.00	[ICRA]A2+; assigned
Total	**526.81**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings favourably factor in the long track record of GSP Crop Science Private Limited (GSP) in the agrochemical industry, its diversified customer base across the international and domestic markets and its extensive sales channel including B2B, B2C and export business. The ratings also take into consideration the company's good financial profile, characterised by steady revenue growth, comfortable capital structure and healthy coverage metrics. The company's revenue grew at a CAGR of 15% during FY2018-FY2022 with the operating income increasing to ~Rs. 1,406 crore in FY2022 from Rs. 688 crore in FY2018, largely driven by new product registrations in various regulated markets supported by higher number of customers.

The operating margins have remained range-bound and are expected to be around 9-10%, going forward. The capital structure remains comfortable with gearing at 0.68 times as on March 31,2022. However, the gearing is likely to moderate if there is an addition of debt to fund the buyout of remaining private equity stake. The coverage indicators remained healthy with interest coverage at 5.53 times and NCA/TD at 27% in FY2022 owing to the healthy margins. While the coverage indicators are likely to moderate to some extent if there is addition of debt, they will continue to be healthy.

The ratings are constrained by the moderately high working capital intensity of the business, intense competition in the industry and the susceptibility of the operations to any adverse regulatory developments related to manufacturing/sales of agrochemicals. Moreover, GSP's revenues and profitability remain vulnerable to the agroclimatic conditions, volatility in raw material prices and foreign exchange rates, as part of the raw material requirement is met through imports. The forex risk is partially mitigated through export business as there is a case of natural hedge.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GSP will continue to benefit from the vast experience of its promoters and its established track record over the years to generate steady growth in operating income with comfortable cash flow generation.

Key rating drivers and their description

Credit strengths

Diverse product portfolio and well-established presence in agrochemical industry - GSP has an established presence in the agrochemical industry for around three decades. The company has grown its business by consistently modernising, enhancing its production capacity and catering to many other large agrochemical companies. GSP has a well-diversified portfolio of products across the product segment i.e. insecticides, herbicides, fungicides, plasticisers etc. It has a diversified revenue profile with branded sales contributing around 35-40% and exports accounting for 18% of the revenue. Further, the dependence on individual products is limited below 10%.

Moderate customer concentration risk - The company caters to a diversified customer base across the international and domestic markets. GSP products are exported to more than 60 countries covering Latin America, including the US, Australia, Africa, Asia & Middle East. Further, the company's majority of domestic sales are spread across six-seven states with presence in all states. The company has been receiving repeat orders from its existing customers.

Comfortable financial profile – The company's revenue grew at a CAGR of 15% during FY2018-FY2022 with the operating income increasing to ~Rs. 1,406 crore in FY2022 from Rs. 688 crore in FY2018. The revenues rose substantially in the last five years owing to new product registrations in various regulated markets, supported by increase in the number of customers along with higher orders from existing customers. Further, the operating margins remained healthy at 9.42% in FY2022 and are expected to grow, going forward, due to the increased scale of operations. The capital structure remains comfortable with gearing at 0.68 times as on March 31,2022. The coverage indicators remained healthy with interest coverage at 5.53 times and NCA/TD at 27% in FY2022 owing to the healthy margins.

Favourable demand prospects – Agrochemicals play a critical role in ensuring the food and nutrition security of the nation, and efficient usage of crop protection products and solutions for Indian agriculture is the need of the hour. Agrochemicals could play a significant role in overcoming this imbalance. The Indian crop protection market is supported by strong growth drivers. ICRA believes that GSP will improve its business performance over the medium term, with healthy growth prospects in the agrochemical segment.

Credit challenges

Working capital intensive nature of operations - The working capital intensity remained high because of the high receivables and inventory levels. The receivables have increased significantly because of the seasonality of the business, impacting the working capital cycle. Further, the company is required to maintain high finished goods inventory at the beginning of seasons. It must also maintain a high level of raw material inventory as a significant portion is met through imports. GSP gives a credit period of about 90-100 days to its customers.

Regulated nature of industry and exposure to agro-climatic risk - The agrochemical industry is highly regulated in both the international and domestic markets. Further, any new product takes 3-5 years for getting registered. Poor monsoons translate into slower agrochemical offtake and, therefore, affect the performance of the agrochemical entities. However, the risk for GSP is mitigated, to some extent, by its diversified geographical presence across various countries internationally and across various states in the domestic market.

Exposure to raw material procurement and price risk and foreign exchange volatility - Around 90% of GSP's imports are from China. GSP faced some supply issues due to China's zero Covid policy, border tensions etc and, therefore, GSP is working on reducing its dependence on China. The company has tied up with some domestic suppliers who will supply to them on priority.

Further, it has tied up with a few vendors to manufacture these raw materials for GSP, in which the latter will have the priority in getting these supplies.

Imports remain a sizeable portion of the total raw material requirements. The company has a natural hedge to some extent against the exports. For the balance, the company hedges only selectively and that too GSP takes plain forwards to cover 20-25% of the exposure falling due in the next 30-45 days.

Liquidity position: Adequate

GSP's liquidity remains adequate with healthy operational cash flows of Rs. 78.59 crore, while cash and bank balance of Rs. 132.60 crore as of March 2022. However, this cash has been utilised to buy back the stake of PE investors. The utilisation of fund-based limits remained around 75% on an average with maximum utilisation of 91%. As on April 30, 2022, it had cushion from undrawn limits of Rs. 17.7 crore against the sanctioned limits and also Rs.13 Cr. of fund received in the collection/EEFC account of company as on April 30,2022.

Rating sensitivities

Positive factors – ICRA could upgrade GSP's ratings if there is a sustained and material improvement in profitability along with a better working capital cycle that will improve the overall liquidity position.

Negative factors – Negative pressure on GSP's ratings could arise if there is a decline in revenues and operating margins, resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle impacting the company's liquidity position will also affect the ratings. The ratings may also be downgraded if a significant debt-funded capex or buyback impacts the debt metrics, causing the net debt/OPBDITA to be more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Entities in the Agrochemicals Industry
Parent/Group support	Not Applicable
Consolidation	The ratings are based on consolidated financials of GSP along with its subsidiaries Rajdhani Petrochemicals Private Limited and Indo GSP Chemicals LLP

About the company

GSP Crop Science was promoted by Mr. Vrajmohan R. Shah in 1985 as a manufacturer of single super phosphate in the fertiliser industry. Today, it manufactures technical grade ingredients and formulates insecticides, fungicides and herbicides, intermediates, biopesticides, seed-treatment chemicals and public health products. It has a team of more than 900 experienced employees working at all the sites of Ahmedabad and Baroda, Gujarat. GSP products reach its customers through 23 C and F depots and more than 7,900 dealers across India. Its products are exported to more than 60 countries, covering Latin America, including US, Australia, Africa, Asia & Middle East.

In 2014-15, GSP has received private equity of Rs. 950 million from Oman India Joint Investment fund for an equity stake of about 11.7 per cent in the company. Currently, the same is valued at Rs 191 crore, with the company's equity valuation at around Rs. 1,630 crore. This translates into IRR of 9.5-10% for the investor. GSP provided a partial exit to them in April 2022 through a buyback of shares worth Rs.110.50 Cr. The balance payment to investor is pending which will be completed within 1 year either by another private equity investor or any pre-IPO fund raise or through any other secondary transaction.

Key financial indicators (audited)

GSP Consolidated	FY2021	FY2022
Operating income	1,077.13	1,405.77
PAT	67.74	75.59
OPBDIT/OI	11.97%	9.42%
PAT/OI	6.29%	5.38%
Total outside liabilities/Tangible net worth (times)	1.29	1.56
Total debt/OPBDIT (times)	1.08	2.42
Interest coverage (times)	7.09	5.53

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on July 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					September 01, 2022	-	-	-
1	Fund Based-Term Loan	Long term	115.42	110.42	[ICRA]A-(Stable)	-	-	-
2	Fund Based-Working Capital Term Loan	Long term	38.39	30.91	[ICRA]A-(Stable)	-	-	-
3	Fund Based-Others	Long Term / Short Term	187.50	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-
4	Non Fund Based-Others	Long Term / Short Term	5.50	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-
5	Short Term-Fund Based/Non Fund Based-Others	Short term	15.00	-	[ICRA]A2+	-	-	-
6	Short Term-Non Fund Based-Others	Short term	165.00	-	[ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based-Term Loan	Simple

Fund Based-Working Capital Term Loan	Simple
Fund Based-Others	Simple
Non Fund Based-Others	Simple
Short Term-Fund Based/Non Fund Based-Others	Simple
Short Term-Non Fund Based-Others	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	April 2019 - March 2022	9.65%-10.30%	April 2024 - March 2028	115.42	[ICRA]A-(Stable)
NA	Working Capital Term Loan	April 2022	8.05% - 10.20%	March 2023	38.39	[ICRA]A-(Stable)
NA	Fund Based	NA	NA	NA	187.50	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Non Fund Based	NA	NA	NA	5.50	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Fund Based/Non Fund Based	NA	NA	NA	15.00	[ICRA]A2+
NA	Non Fund Based	NA	NA	NA	165.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	GSP Ownership	Consolidation Approach
GSP Crop Science Pvt Ltd	100.00% (rated entity)	Full Consolidation
Rajdhani Petrochemicals	99.99%	Full Consolidation
Indo GSP Chemicals LLP	76.00%	Full Consolidation

Source: GSP annual report FY2021
Note: ICRA has consolidated the financials of the parent (GSP), its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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