

February 26, 2021

Willowood Chemicals Private Limited: [ICRA]A-(Stable)/A2+ rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – CC/Others	192.00	[ICRA]A-(Stable) assigned
Long-term/Short-term Unallocated	25.00	[ICRA]A-(Stable)/A2+ assigned
Total	217.00	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the rating, ICRA has consolidated the financials of Willowood Chemicals Pvt. Ltd. (WCPL), three of its subsidiaries viz. Shreeji Agchem Pvt. Ltd. (SAPL), Willowood Crop Sciences Pvt. Ltd. (WCSPL), JDM Scientific Research Organisation Pvt. Ltd. (JDM) and a 100% subsidiary of SAPL namely Willowood Industries Pvt. Ltd. (WIPL) on account of substantial operational and financial linkages among the companies. These entities are collectively referred, hereinafter, as Willowood India or the Group.

The assigned rating takes into account the extensive experience of the promoters of about three decades in the agrochemical industry across the globe and the established operational track record of Willowood India of over a decade. The rating considers the presence of the Group across the entire agrochemical value chain through various group companies and its diversified revenue streams. The rating further takes comfort from the sizeable pool of registered products under Section 9(3) and 9(4) of the Insecticides Act, as well as Willowood India's own pool of patented products. The rating factors in the availability of a well-entrenched distribution network of over 7,500 distributors in the domestic market, supported by established brands in the retail segment. ICRA also notes its reputed clientele in the trading and toll manufacturing segments. The rating also takes comfort from the low product and geographical concentration of Willowood India's sales.

ICRA takes note of the proposed reorganisation of the Willowood India Group with merger of WCPL and WCSPL into SAPL at fair value, which will result in a significant goodwill generation for the consolidated entity. However, ICRA also notes that the amortisation of this goodwill may not be allowed as per the amendments proposed in Finance Bill, 2021, and has not considered the amortisation benefits for analysing WCPL's credit profile.

The rating is, however, constrained by the vulnerability of Willowood India's operations to agro-climatic risks, along with high seasonal concentration with over 70% of its total revenue contributed by sales during the kharif season. ICRA further notes the high supplier concentration risk with over 70% of active ingredients (AIs) procured from China. ICRA notes that with the outbreak of the Covid-19 pandemic, the company faced supply-side as well as demand-side constraints in Q4 FY2020, resulting in a drop in the operating profitability in FY2020. The rating factors in the Group's working capital-intensive nature of operations and exposure to foreign currency fluctuation risk, given the high dependence on imports. ICRA notes the highly regulated nature of the agrochemical industry due to the hazardous nature of pesticides and any decision to ban certain products by the Government can have significant impact on its operations. The rating also factors in the project risk associated with the construction of an AI manufacturing plant at Dahej (Gujarat), which is expected to be commissioned by March 2022. However, ICRA notes that once commissioned, this backward integration will improve Willowood India's margins and reduce its import dependence over the medium term.

The Stable outlook on the long-term rating reflects ICRA's expectation that Willowood India will continue to benefit from the experience of its promoters in the agrochemical industry, its established presence in the Indian market and its diversified revenue streams.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in agrochemical industry – Willowood India was promoted by Mr. Vijay Mundhra in 2006. He is the founder of the Hong-Kong based Willowood Group and has about three decades experience in the agrochemical industry. The Willowood Group has a customer base in over 50 countries spread across Africa, Asia, Europe, South America and North America and is involved in the production and distribution of pesticides and other crop protection chemicals around the globe.

Diversified revenue stream with presence of across agrochemical value chain – Willowood India has presence across the agrochemical value chain including B2B trading of AIs, toll manufacturing of final formulations, retail marketing and distributions of final formulations, along with research and development (R&D) of the new AIs. The Group's product portfolio includes several AIs and formulations in the insecticides, herbicides, fungicides, as well as plant growth regulator product segments. In terms of the retail sales mix, insecticides dominate the overall sales contributing to 35-40% over the past three years.

Wide distribution network and established brand presence in retail market – Over the years, Willowood India has established a wide distribution network with over 7,500 dealers/distributors spread across ~20 states in India. These are further supported by a team of in-house marketing executives and field assistants. The Group markets its products under its own brand name and currently has over 40 brands in the retail segment.

Sizeable pool of products registered with CIBRC, along with patented AIs – The formulations manufactured by Willowood India are based on the imported AIs. Such imported AIs are registered with the Central Insecticides Board and Registration Committee (CIBRC) under Section 9(3) or 9(4) of the Insecticides Act, 1968. JDM specialises in getting the import registrations for the off-patented AIs. At present, Willowood India has ~40 approved import registrations. Additionally, over the past few years, JDM has developed new AIs by combining two to three existing AIs and has patented these new AIs. It has 18 approved patents, of which only seven are marketed currently post approval from CIBRC. The patent is granted for a period of 15 years and should boost the margin over the medium term.

Reputed and diversified customer base with track record of repeat business – Among the Willowood India group of companies, WCPL has more than 100 customers including Dhanuka Agritech, Sumitomo Chemical India, etc, for its trading business and SAPL has over 25 customers including Chambal Fertilisers and Chemicals, Isagro (Asia) Agrochemicals, etc, for its contract manufacturing business. Willowood India has established long-term relationships with most of its customers and every year, a large number of WCPL and SAPL's orders are received from its existing customers.

Credit challenges

High dependence of AI procurement from China; any significant disruption can impact operations – A significant proportion (about 40% of total procurement in FY2020) of the AIs procured by Willowood India is from its affiliate companies based in Hong Kong and China. Additionally, Willowood India imports certain AIs (forming about 30% of the total procurement) directly from multinational companies based in China and Hong Kong. Thus, overall, about 70% of the total AI requirement of Willowood India is met through imports from the Chinese suppliers exposing the company to concentration risk. Any significant disruption can directly impact the company's operations. For instance, the supply-side disruption in China caused by the Covid-19 pandemic, coupled with logistics constraints, impacted its operations as witnessed in FY2020, when the operating margin dropped to 8.1% from 13.4% in FY2019.

High working capital intensity – The working capital intensity of Willowood India (consolidated) remained high (NWC/OI of 43% in FY2020 and 40% in FY2019) because of high inventory and receivables days. Given the seasonality of the sales, the company is required to maintain high finished goods inventory at the beginning of the kharif and rabi seasons. The Group has to maintain high level of raw material inventory since a significant portion of the AIs is met through imports. Moreover, the company gives a high credit period to the retail consumers of about 120 days, as is the trend in the industry.

Regulated nature of industry due to hazardous nature of pesticides – The agrochemical industry is highly regulated in the domestic market. The Government of India has issued a draft order on May 14, 2020 banning the use of 27 pesticides after consultation with the CIBRC. While the final decision is still pending, any such decisions by the Government to ban certain products can have significant impact on the Group's operations.

Project execution risk – Willowood India is setting up a new production facility for AIs at Dahej (Gujarat) under WIPL (100% subsidiary of SAPL) and has acquired the land for the same at a cost of Rs. 18-20 crore. A total capex of Rs. 225-250 crore is estimated to be incurred over FY2021-FY2022, which exposes the company to the project execution risk. The project will be funded by a debt of Rs. 150 crore and the remaining through internal accruals. The debt drawdown is expected to commence in Q1 FY2022 and the final sanction for the debt is still awaited. The company plans to produce three to four AIs at this facility in the initial year, post which new AIs will be added annually.

Exposure to agro-climatic risks – As the share of irrigated (by dams/canals/wells) area is low in India, most of the regions are dependent on monsoons. Poor monsoons translate into slower agrochemicals offtake and, therefore, affect the performance of the agrochemical entities. However, the risk for Willowood India is mitigated, to some extent, by its diversified geographical presence spread across ~20 states.

Liquidity position: Adequate

At a consolidated level, WCPL's liquidity position remains **adequate** with healthy annual fund flow from operations of Rs. 43 crore in FY2020 and healthy expected cash accruals of ~Rs. 100 crore in FY2021. At a consolidated level, WCPL had a sanctioned interchangeable working capital facility of Rs. 352.0 crore as on December 31, 2020, the average utilisation of which remained moderate at around 80% over the past 12 months. The liquidity will be affected to some extent by the moderate scheduled repayments over the medium term, as the company draws fresh term loans for the ongoing capex.

Rating sensitivities

Positive factors – Successful commissioning and stabilisation of the Dahej project and significant increase in the scale of operations, coupled with improvement in operating margin, could lead to a rating upgrade.

Negative factors – Negative pressure on the ratings can arise if there is any time and cost overruns in the commissioning of the Dahej project or if there is any significant deterioration in its scale of operations and profit margins.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Agrochemical Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of WCPL, its subsidiaries viz. SAPL, WCSPL, JDM and a step-down subsidiary, WIPL.

About the company

Willowood India Group is among the leading manufacturers and distributors of pesticides and other crop protection chemicals. Since its inception in 2006, the Group has grown rapidly and expanded its presence across all segments of the agrochemical value chain. It operates through the parent company – WCPL and its three wholly-owned subsidiaries – WCSPL, SAPL and JDM. WCPL is into trading of AIs, SAPL is involved in toll manufacturing of final formulations, WCSPL is involved in the marketing and distributions of final formulations, JDM specialises in the R&D of new AIs as well as getting the off-patented AIs registered in India and the upcoming Dahej plant under WIPL will be involved in the production of AIs.

Key financial indicators (audited)

WCPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	987.5	1,090.3
PAT (Rs. crore)	66.2	41.9
OPBDIT/OI (%)	13.4%	8.1%
RoCE (%)	27.0%	14.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.4
Total Debt/OPBDIT (times)	1.9	3.5
Interest Coverage (times)	5.6	3.0
DSCR (times)	3.6	2.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 26, 2021			
1	Fund-based – CC/Others	Long Term	192.00	155.30	[ICRA]A-(Stable)	-	-	-
2	Unallocated limits	Long Term/Short Term	25.00	-	[ICRA]A-(Stable)/A2+	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – CC/Others	NA	NA	NA	192.00	[ICRA]A-(Stable)
NA	Long-term/Short-term Unallocated	NA	NA	NA	25.00	[ICRA]A-(Stable)/A2+

Source: Company data

Annexure-2: List of entities considered for consolidated analysis

Company Name	WCPL Ownership	Consolidation Approach
Willowood Chemicals Pvt. Ltd.	100.0% (rated entity)	Full Consolidation
Shreeji Agchem Pvt. Ltd.	100.0%	Full Consolidation
Willowood Crop Sciences Pvt. Ltd.	100.0%	Full Consolidation
JDM Scientific Research Organisation Pvt. Ltd.	100.0%	Full Consolidation
Willowood Industries Pvt. Ltd.	100.0% (Step-down subsidiary)	Full Consolidation

Source: WCPL annual report FY2020

Note: ICRA has taken a consolidated view of the parent (WCPL) and its subsidiaries while assigning the ratings

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