

February 23, 2022

Willowood Chemicals Private Limited: Long-term rating upgraded to [ICRA]A(Stable); short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based/Non-fund based/others	-	197.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Short Term- Non-fund based/others	-	33.00	[ICRA]A2+; reaffirmed
Long Term-Fund Based/Cash Credit	192.00	-	-
Long Term/Short Term Unallocated	25.00	-	-
Total	217.00	230.00	

*Instrument details are provided in Annexure-1

Rationale

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

The rating upgrade takes into account the Group's healthy revenue growth and profit margin improvement in FY2021 and 9MFY2022, partly supported by the increased share of value-added/branded product sales. The rating considers 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 Group is present across the entire agrochemical value chain through various group companies and its diversified revenue stream. The Group has a sizeable pool of registered products under Section 9(3) and 9(4) of the Insecticides Act as well as its own pool of patented products. It has a network of over 7,500 distributors in the domestic market, supported by established brands in the retail segment, and a 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 also takes note of the planned reorganisation of the Willowood India Group with the merger of WCPL and WCSPL into SAPL, which is expected to be completed in the next six months.

The rating is, however, constrained by the vulnerability of Willowood India's operations to agro-climatic risks, along with high seasonal concentration with sales during the kharif season contributing over 70% to its total revenue. The supplier concentration risk is also high with over 70% of the active ingredients (AIs) procured from China. The rating factors in the Group's working capital-intensive nature of operations and the exposure to foreign currency fluctuation risk, given the high dependence on imports. Further, the agrochemical industry is highly regulated due to the hazardous nature of pesticides and any decision to ban certain products by the Government can have a 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 now expected to be commissioned by July 2022 against the earlier expectation of March 2022. There have been some time and cost overruns due to a change in the project's scope. However, ICRA notes that once commissioned, this backward integration will improve Willowood India's margins and reduce its import dependence over the medium term. ICRA will be monitoring the development related to the project.

The Stable outlook on the long-term rating reflects ICRA's expectation that Willowood India's financial profile will continue to improve, aided by its established presence in the Indian market, a portfolio of registered and patented products and the increased share of value-added/patented products.

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 across agrochemical value chain – Willowood India is present 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 insecticides, herbicides, fungicides, as well as plant growth regulator products.

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 ~18 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 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 ~42 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 25 approved patents, of which only eight are marketed at present post approval from the 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, WCPL and SAPL receives a large number of repeat orders from its existing customers.

Credit challenges

High dependence of AI procurement from China; any significant disruption can impact operations – A significant proportion of the AIs procured by Willowood India is from its affiliate companies based in Hong Kong and China. Additionally, Willowood India imports certain AIs 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 Chinese suppliers, exposing the company to concentration risk. Any significant disruption in supply from China can have an adverse impact on the company's operations and profit margins.

High working capital intensity – The working capital intensity of Willowood India (consolidated) remained high at NWC/OI of 48% in FY2021 (P.Y 43% in FY2020) 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 Als is met through imports. Moreover, the Group gives a high credit period to the retail consumers of about 120 days, as is the trend in the industry.

Regulated nature of industry – The agrochemical industry is highly regulated in the domestic market. The Government of India had 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 decision by the Government to ban certain products can have an impact on the Group's operations, although ICRA notes that the revenue contribution from these 27 pesticides for the Willowood Group is modest. .

Project execution risk – The Willowood Group is setting up a new production facility for Als at Dahej (Gujarat) under the subsidiary of SAPL – Willowood Industries Limited (WIPL). The project cost has increase to Rs. 350 crore and is now expected to commence operations from July 2022 against the earlier expectation of March 2022. The time and cost overrun is mainly due to changes in the scope of project. The Group remains exposed to project execution risk and the developments will be monitored. Till date, ~Rs. 200 crore has been incurred for the project and funded by internal accruals and the remaining capex of around Rs. 150 crore will be funded through debt

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 agrochemical 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 ~18 states.

Liquidity position: Adequate

At a consolidated level, Willowood's liquidity position remains adequate with healthy annual fund flow from operations. The Group's unencumbered cash balance and investments stood at Rs. 7.0 crore as on March 31, 2021. At a consolidated level, Willowood also had a sanctioned interchangeable working capital facility of Rs. 430.0 crore as on December 31, 2021. The average utilisation of the working capital limit remained at around 65% in the last 12 months. The liquidity will be affected to some extent by moderate scheduled repayments over the medium term. Willowood has an outstanding term loan of Rs. 45.1 crore as on March 31, 2021, towards which there are repayment obligations of Rs. 0.5 crore in FY2022 and Rs. 11.3 crore in FY2023.

Rating sensitivities

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

Negative factors – Negative pressure on the rating can arise if there is any significant time and cost overruns in the commissioning of the Dahej project or if there is any significant deterioration in the scale of operations and profit margins. A specific credit metric that could lead to rating downgrade is ROCE below 17% 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/Standalone

For arriving at the rating, ICRA has considered the consolidated financials of WCPL, its group concerns viz. WCSPL, SAPL, JDM and 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 distribution 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)

Willowood Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	1090.3	1330.6
PAT (Rs. crore)	41.9	98.2
OPBDIT/OI (%)	8.1%	11.7%
PAT/OI (%)	3.8%	7.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.3
Total Debt/OPBDIT (times)	3.5	2.6
Interest Coverage (times)	3.0	7.1
DSCR (times)	2.5	5.7

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation'

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Fund Based/Non-fund based/others	Long-term	197.00	54.81	[ICRA]A (Stable)	-	-	-
2	Non-fund based/others	Short-term	33.00	-	[ICRA]A2+	-	-	-
3	Fund Based/CC	Long-term	-	-	-	[ICRA]A- (Stable)	-	-
4	Unallocated	Long Term/Short Term	-	-	-	[ICRA]A- (Stable)/[ICRA]A2+	-	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long Term-Fund Based/Non-fund based/others	NA	NA	NA	197.00	[ICRA]A (Stable)
NA	Short Term- Non-fund based/others	NA	NA	NA	33.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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.	Subsidiary	Full Consolidation
Willowood Crop Sciences Pvt. Ltd.	Subsidiary	Full Consolidation
JDM Scientific Research Organisation Pvt. Ltd.	Subsidiary	Full Consolidation
Willowood Industries Pvt. Ltd.	Subsidiary of SAPL	Full Consolidation

Source: Company

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