

July 06, 2022

Hemani Industries Limited: Ratings 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 – Term Loan	25.00	25.00	[ICRA]A-(Stable); reaffirmed
Short-term - Working Capital Facilities	145.00	280.00	[ICRA]A2+; reaffirmed/assigned for enhanced limits
Long term - Unallocated	7.00	0.00	-
Total	177.00	305.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation considers Hemani Industries Limited's (HIL/the company) established track record and presence in key markets and a comfortable financial risk profile. HIL has an established track record of more than two decades in various agrochemicals with healthy export revenues. HIL's revenues have grown at a healthy compounded annual growth rate (CAGR) of about 26% in the last five years ended FY2021, backed by its strong position in the pyrethroids market, and the trend has continued in FY2022. Product launches in the export markets, improved capacity utilisation and new capacities going on stream in its subsidiary will drive HIL's revenue growth over the medium term, on a consolidated basis. Further, HIL has healthy capitalisation and coverage indicators with a gearing of 0.3 times, TD/OPBITDA of 0.8 times and DSCR of 28.6 times in FY2021, on a consolidated basis. The capitalisation and coverage indicators are expected to remain healthy, going forward, despite the debt-funded capex in its subsidiary (in FY2022), supported by healthy accruals.

The ratings are constrained by large working capital requirements, reflected in the high net working capital intensity (NWC) of 33% in FY2021 mainly due to the high receivable days. Further, the ratings are constrained by the exposure to risks inherent in the domestic agrochemical market and the susceptibility to agro-climatic and regulatory risks. Moreover, HIL, through its subsidiary, is undertaking a debt-funded capex of ~Rs. 200.0 crore in FY2021-FY2023 to set up a plant at Saykha, Gujarat. Achieving desired levels of profitability and accruals from this expansion remains a key sensitivity.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its management in the agrochemical industry and is likely to witness steady revenue growth, backed by stable demand for existing products and the ongoing capex for capacity enhancement.

Key rating drivers and their description

Credit strengths

Experienced management and company's established track record - HIL is present in the entire product value chain of the agrochemical industry, i.e., technicals, formulations and intermediates. HIL is one of the leading players in the Indian pyrethroids market. It exports to over 60 countries across North America, Europe, Asia and Africa. The promoters have an experience of more than two decades in the speciality chemicals business, especially agrochemicals.

Healthy growth in revenue and capacity utilisation - HIL's revenues have grown at a healthy CAGR of about 26% in the last five years ended FY2021, backed by its strong position in the pyrethroids market. The revenues have increased to Rs. 1,168.2 crore in FY2021 from Rs. 367.4 crore in FY2016, on a consolidated basis. The growth trend has continued in FY2022. Going

forward, product launches in the export markets, improving capacity utilisation and new capacities will drive HIL's revenue growth over the medium term.

Comfortable financial risk profile - The net worth is strong at ~Rs. 599.3 crore, while the gearing and TOL/TNW stood low at 0.3 times and 0.9 times, respectively, as on March 31, 2021. The debt protection metrics are robust, with interest coverage at 28.6 times and net cash accrual to total debt ratio at 99% for FY2021. The capital structure is expected to remain comfortable over the medium term, despite the debt-funded capex being undertaken.

Credit challenges

Large working capital requirement - HIL's business remains working capital intensive with NWC/OI of 33% in FY2021 and extended credit offered to export market customers. The receivable days have remained in the range of 130-160 days in the last three fiscals. Moreover, HIL carries a moderate inventory of 57 days to cater to different seasonal requirements. Hence, the overall working capital requirement remains high for the business.

Exposure to risks inherent in domestic agrochemical market - In India, a substantial area under cultivation is still not well-irrigated and depends on the monsoons. Thus, the fortunes of the agrochemical industry are linked to the rainfall during a year. There is intense price and product competition from local players and multinational corporations. The operations are also exposed to government regulations, such as prohibition on agrochemicals.

Liquidity position: Adequate

In FY2020 and FY2021, while the fund flow from operations was positive, the free cash flows of the company remained negative due to incremental working capital requirements on the back of increased scale of operations and high receivable days as well as capex outgo. The company is carrying out a capex of ~Rs. 200 crore in its subsidiary, Hemani Crop Care Pvt. Ltd. (HCCPL), over FY2021-FY2023, which would be funded through a term loan of Rs. 137 crore and the rest through preference shares and unsecured loans from HIL and its promoters. HCCPL has already tied up the term loan. The liquidity position is, however, adequate, aided by expected growth in cash accruals and available unutilised working capital limits against moderate repayment obligations in the near term on consolidated basis.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if HIL shows a steady growth in revenues, while maintaining healthy profitability levels on a sustained basis (consolidated). ICRA could also upgrade the ratings if there is a significant improvement in the company's liquidity position due to a moderation in the working capital intensity. Timely completion of the capex and commensurate returns from the same would also be a positive rating sensitivity.

Negative factors – Negative pressure on HIL's rating could arise if the revenues and operating margins decline, resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle impacting the company's liquidity position could also be a trigger for a rating downgrade. Moreover, a higher-than-expected debt-funded capex, on a consolidated basis, impacting the company's credit profile may also result in a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Hemani Industries Limited. As on March 31, 2022 the company has one wholly owned subsidiary, whose details are enlisted in Annexure-2.

About the company

Hemani Industries Limited, incorporated in 1994, manufactures agrochemical intermediates, technicals and formulations. It is a Government-recognised Export House catering to a large client base across markets like South Africa, the EU, the US, South America, China, Russia, South Korea, Taiwan, Turkey, Egypt, etc. The company has three manufacturing facilities, one each at Ankleshwar, Dahej and Saykha in Gujarat. In Ankleshwar (Gujarat), the company manufactures meta phenoxy benzaldehyde (M.P.B.) used to manufacture insecticides with an installed production capacity of 500 tonnes per month. HIL commenced operations at its Dahej (Gujarat) unit from July 2010 by manufacturing cypermethrin, metamidron, alpha cypermethrin and permethrin, which are primarily agrochemical and pesticide intermediates. The company also manufactures cypermethric acid chloride (C.M.A.C.), a cyper-based intermediate used to manufacture products such as cypermethrin, metamidron, alpha cypermethrin and permethrin. The company has total installed production capacity of 25,488 MTPA.

HCCPL is a subsidiary of HIL with a manufacturing facility at Saykha (Gujarat) for agrochemicals and it is implementing a large project for manufacturing agrochemicals. The total project cost is Rs. 202 crore, which would be funded by a term loan of Rs. 137 crore and the remaining through equity/unsecured loans from promoters. Till March 2021, HCCPL had incurred a capex of Rs. 76 crore and commenced partial operations from October 2020. The remaining capex towards further capacity expansion would be completed in FY2022. It reported a revenue of Rs. 32.4 crore in FY2021.

Key financial indicators (audited)

Hemani Industries Limited (Consolidated)	FY2020@	FY2021*
Operating income (Rs. crore)	994.4	1168.2
PAT (Rs. crore)	135.6	170.4
OPBDIT/OI (%)	19.2%	21.3%
PAT/OI (%)	13.6%	14.6%
Total outside liabilities/tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	0.7	0.8
Interest coverage (times)	15.1	28.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; @standalone; *consolidated

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 Mar 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
				July 6, 2022	Oct 19, 2021	Aug 30, 2021	Jun 29, 2020	May 30, 2019	
1 Term Loan	Long-term	25.00	18.31	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]B+(Stable) ; ISSUER NOT COOPERATING	[ICRA]BB+(Stable); ISSUER NOT COOPERATING	[ICRA]BBB+(Stable); ISSUER NOT COOPERATING	
2 Working Capital	Short-term	280.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A2; ISSUER NOT COOPERATING	
3 Unallocated Limits	Long-term	-	-	-	[ICRA]A-(Stable)	[ICRA]B+(Stable) ; ISSUER NOT COOPERATING	[ICRA]BB+(Stable); ISSUER NOT COOPERATING	[ICRA]BBB+(Stable); ISSUER NOT COOPERATING	

4	Non-fund Based	Short-term	-	-	-	-	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A2; ISSUER NOT COOPERATING
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based Facilities-Term Loan	Simple
Short term -Working Capital	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-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	FY2019	8.0%	FY2024	25.00	[ICRA]A-(Stable)
NA	Working Capital	-	NA	NA	280.00	[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	Ownership	Consolidation Approach
Hemani Crop Care Pvt Ltd	100.0%	Full Consolidation

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Branches



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