April 04, 2023

Willowood Chemicals Limited (erstwhile known as Shreeji Agchem Pvt. Ltd.): Ratings reaffirmed and outlook revised to Positive from Stable; 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	95.00	485.00	[ICRA]A; reaffirmed/ assigned; outlook revised to Positive from Stable
Long term/Short term unallocated	20.00	120.00	[ICRA]A/[ICRA]A2+; reaffirmed/ assigned; outlook revised to Positive from Stable
Total	**115.00**	**605.00**	

^Instrument details are provided in Annexure-I

Rationale

ICRA notes the implementation of a scheme of reorganisation, wherein two entities – namely Willowood Chemicals Private Limited and Willowood Crop Sciences Private Limited - have been amalgamated with effect from April 1, 2020, vide an order dated December 29, 2021, with Shreeji Agchem Private Limited, which has been subsequently renamed as Willowood Chemicals Limited (WCL/the company).

The revision in the outlook reflects ICRA's expectation of a healthy growth in revenues and cash accruals on a consolidated basis which should improve the overall credit metrics of the company. The growth in revenues is expected to be driven by volume growth of the existing products of WCL and a healthy ramp-up expected in the recently commissioned active ingredient (AI) manufacturing plant at Dahej under WCL's wholly-owned subsidiary, Willowood Industries Private Limited (WIPL).

The ratings continue to factor in 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 company is present across the entire agrochemical value chain and has recently consolidated its operations under a single entity through the aforementioned merger which should result in reduced overheads and operational synergies. WCL 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 ratings also take comfort from the low product and geographical concentration of WCL's sales.

The ratings are, however, constrained by the vulnerability of WCL'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 65-70% of the active ingredients (AIs) procured from China. The supplier concentration risk, however, may moderate marginally with the commissioning of the AI manufacturing plant. The ratings factor in the company's working capital-intensive 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 ratings also factor in the successful commissioning of phase 1 in Dahej plant, although with a slight delay, in December 2022, which reduces the project risk associated with the construction of the AI manufacturing plant. The company expects phase 2 to be commissioned by Q1 FY2024. ICRA notes that the project costs have been revised from Rs. 330 crore earlier to around Rs. 500 crore, partially due to cost escalation because of commodity price inflation and majorly due to the change in scope of project. The incremental costs are being funded using a mix of debt and internal accruals. However, ICRA notes that once the AI plants ramp up, the backward integration will improve Willowood India's margins and reduce its import dependence over the medium term. While a major part of the capex programme has been commissioned, ICRA will continue to monitor the stabilisation of the already commissioned project and any time/cost overruns for the remaining capex programme underway will expose the company to residual project implementation risk.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in agrochemical industry – The company 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, Brazil, 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 – WCL is present across the agrochemical value chain, including B2B trading of AIs, toll manufacturing of final formulations, retail marketing and distribution of final formulations, along with research and development (R&D) of the new AIs. The company'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, the company has established a wide distribution network with over 7,500 dealers/distributors across ~18 states in India. These are further supported by a team of in-house marketing executives and field assistants. WCL markets its products under its own brand name and has over 40 brands in the retail segment.

Sizeable pool of products registered with CIBRC, along with patented AIs – The formulations manufactured by the company 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 Scientific Research Organisation Pvt. Ltd. (JDM), which is 100% subsidiary of the company, 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 received patents for these products. It has 28 approved patents, of which only nine are marketed at present, post approval from the CIBRC. The patent is granted for a period of 20 years and should boost the margin over the medium term.

Reputed and diversified customer base with track record of repeat business –The company is diversified into B2C and B2B segmentz. For its B2B segment, the company has more than 100 customers, including Dhanuka Agritech, Sumitomo Chemical India, Chambal Fertilisers and Chemicals, Isagro (Asia) Agrochemicals, etc. WCL has established long-term relationships with most of its customers and every year 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 WCL is from China. About 65-70% 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. With the commissioning of the AI plant under WIPL, the dependence on China is expected to moderate marginally, although the dependence on China will remain high.

High working capital intensity – The working capital intensity (net working capital/operating income, NWC/OI) of the company remained high at 40% in FY2022 (provisional; 48% in FY2021) 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 company has to maintain a high level of raw material inventory as 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 – 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.

Residual project implementation and stabilisation risk – The company had been setting up a new production facility for AIs at Dahej (Gujarat) under its wholly-owned subsidiary, Willowood Industries Private Limited. The project is divided into two phases and five plants. The first phase (three plants) has already been commissioned in December 2022 and the second phase (two plants) is expected to be commissioned by Q1 FY2024. The project cost has increased to ~Rs. 490-500 crore mainly due to changes in the scope of project. The company remains exposed to residual project execution risk and the developments will be monitored. Till December 2022, the company had already incurred around Rs. 450 crore of capex funded through a mix of debt (Rs 145 crore) and equity. For the balance capex of Rs. 40-50 crore, which is expected to be incurred by Q1 FY2024, the company may avail additional debt from the existing lenders or infuse further equity.

Exposure to agro-climatic risks – As the share of irrigated (by dams/canals/wells) area is low in India, most of the regions depend on monsoons. Poor monsoons translate into slower agrochemical offtake and, therefore, affect the performance of the agrochemical entities. However, the risk for the company is mitigated, to some extent, by its diversified geographical presence spread across ~18 states.

Liquidity position: Adequate

At a consolidated level, WCL's liquidity position remains adequate with healthy annual fund flow from operations. The Group's unencumbered cash balance and investments stood at Rs. 10.7 crore as on March 31, 2022 (provisional). Willowood also had a sanctioned interchangeable working capital facility of Rs. 455.0 crore as on December 31, 2022. The average utilisation of the fund-based limits remained at around 68% 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. 105.5 crore as on March 31, 2022, towards which there are repayment obligations of Rs. 11.3 crore in FY2023 and Rs. 16.2 crore in FY2024. The company has plans for capex over the next few years, for which ~Rs. 100-120 crore will be incurred in FY2024 and FY2025 each, to be funded through a mix of debt and internal accruals.

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, improvement in working capital position and adequate liquidity, could lead to a ratings upgrade.

Negative factors – Pressure on the ratings can arise if there is any significant deterioration in the scale of operations and profit margins or any stretch in the working capital position of the company, weakening the liquidity position. Further, any deterioration in the debt metrics owing to any large debt-funded capex/investments will weigh on the ratings. A specific credit metric that could lead to downgrade is total debt/OPBITDA of more than 2.3x 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 Willowood Chemicals Limited and its subsidiaries enlisted in Annexure 2.

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. Willowood operates in India through Willowood Chemicals Limited (WCL). The two entities - namely Willowood Chemicals Private Limited and Willowood Crop Sciences Private Limited - have been amalgamated with effect from April 1, 2020, vide an order dated December 29, 2021, with Shreeji Agchem Private Limited, which has been subsequently renamed as Willowood Chemicals Limited.

Key financial indicators (audited)

Consolidated	FY2020	FY2021	FY2022*
Operating income	1090.3	1329.2	1574.5
PAT	41.9	63.5	83.3
OPBDIT/OI	8.1%	11.7%	12.1%
PAT/OI	3.8%	4.8%	5.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.5	0.62
Total outside liabilities/Adj. Tangible net worth (times)^	1.4	1.3	1.3
Total debt/OPBDIT (times)	3.53	2.60	2.39
Interest coverage (times)	2.99	5.58	6.33

*Source: Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, *provisional, ^networth adjusted for intangibles created on account of reorganization*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					April 04, 2023	-	Feb 23 2022	Feb 26, 2021
1	Fund based/Non-fund Others	Long term	485.00	-	[ICRA]A(Positive)	-	[ICRA]A (Stable)	-
2	Fund based/CC	Long term	-	-	-	-	-	[ICRA]A-(Stable)
3	Unallocated	Long Term/Short Term	120.00	-	[ICRA]A(Positive) /[ICRA]A2+	-	[ICRA]A (Stable)/[ICRA]A 2+	[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
Long term/Short term unallocated	NA

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: Click Here

Annexure I: Instrument details

ISIN	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	485.00	[ICRA]A(Positive)
NA	Long term/Short term unallocated	NA	NA	NA	120.00	[ICRA]A(Positive)/[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	Ownership	Consolidation Approach
Willowood Chemicals Limited	100.0%	Full Consolidation
Willowood (Hangzhou) Co. Ltd.	Subsidiary	Full Consolidation
Willowood Industries Private Limited	Subsidiary	Full Consolidation
Willowood Agriscience Representacao Comercial Ltda	Subsidiary	Full Consolidation
JDM Scientific Research Organisation Pvt. Ltd.	Subsidiary	Full Consolidation
Margosa Biogrow (India) Pvt Ltd	Subsidiary	Full Consolidation

Source: Company

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