October 12, 2023

Cropnosys India Pvt Ltd: Ratings reaffirmed and rated amount enhanced; rating assigned for optionally convertible debentures

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based cash credit	45.00	45.00	[ICRA]A-(Stable); reaffirmed
Long term/short term - Fund based/non-fund based - Others	25.00	55.00	[ICRA]A-(Stable) [ICRA]A2+; reaffirmed; assigned for enhanced amount
Optionally convertible debentures	-	300.00	[ICRA]A-(Stable); assigned
Total	**70.00**	**400.00**	

Instrument details are provided in Annexure-I

Rationale

The rating action factors in the healthy financial profile of Cropnosys (India) Pvt Ltd (CIPL) with significant revenue growth, healthy margins and coverage metrics. The operating income increased by 46.3% to Rs. 672.1 crore in FY2023 from Rs. 460 crore in FY2022, supported by healthy volume growth owing to new registrations received for existing products in a new geography i.e Brazil. Although, the revenues witnessed some moderation in H1 FY2024, they are expected to remain healthy in FY2024. The operating margins have remained healthy over the last few years and further improved in FY2023 owing to the increased scale that resulted in better absorption of fixed costs, and reduced dependence on job work with the commissioning of the new capacity in December 2022. The operating margins are expected to remain strong, going forward, with a healthy scale of operations and reduced dependence on job work for manufacturing. The coverage indicators remained strong with interest coverage at 44.6 times and NCA/TD at 209% in FY2023 owing to the healthy margins and low debt levels. ICRA notes the expected strategic investment of Rs. 300 crore in CIPL in the form of optionally convertible debentures (OCDs). The funds received from OCDs will be utilised for capital expenditure and general corporate purposes.

The ratings also factor in the extensive experience of the promoters of over two decades in the agrochemical industry. Further, the company caters to a diversified customer base across the international and domestic markets. The company's exports are geographically diversified across Europe, USA, the Asia Pacific, Australia and New Zealand and the domestic sales are spread across 14 states.

The ratings are, however, constrained by product concentration risk as three major products have been contributing to majority of the revenues in the last few years. The contribution of the three products was 74% of the total revenue in 9M FY2023 vis-à-vis 60% in FY2022. However, the major active ingredients (AIs) produced by CIPL are used to manufacture diverse formulations. Further, the company has been increasing its registrations over the years and expects to add many molecules to the AI portfolio, going forward.

The ratings are also constrained by the high working capital-intensive operations on account of the high debtor and inventory levels. Given the seasonality of the business, the receivables have significantly increased in the last few months of the financial year, impacting the working capital cycle. The ratings further remain exposed to raw material procurement and price risks as some portion of the raw materials is still procured from China. However, the company has reduced its dependence on China by procuring from domestic suppliers in the last few years. The company remains exposed to foreign exchange volatility due to the significant export revenues. However, imports act as a natural hedge to an extent. Further, the agrochemical industry is highly regulated in both the international and domestic markets and the industry is susceptible to agro-climatic risks.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that CIPL will continue to benefit from the vast experience of its promoters, its established track record over the years and a strong financial profile with healthy revenues, profitability, and coverage metrics.

Key rating drivers and their description

Credit strengths

Significant revenue growth with improved margins and coverage metrics - The operating income increased by 46.3% to Rs. 672.1 crore in FY2023 from Rs. 460 crore in FY2022, supported by healthy volume growth owing to new registrations received for existing products in a new geography i.e Brazil. Although the revenues witnessed some moderation in H1 FY2024, they are expected to remain healthy for FY2024. The operating margins have remained healthy over the last few years and further improved in FY2023 owing to the increased scale, resulting in better absorption of fixed costs. The operating margins were also supported by the commissioning of the increased capacity in December 2022, reducing the dependence on job work. The operating margins are expected to remain strong, going forward, with the healthy scale of operations and reduced dependence on job work for manufacturing. The coverage indicators remained healthy with interest coverage at 44.6 times and NCA/TD at 209% in FY2023 owing to the healthy margins and low debt levels.

Extensive experience of promoters in agrochemical industry - CIPL is promoted by Mr. Gurvinder Singh in 2006. He is also the founder of UK-based Widecover Ltd and has about 25 years' experience in the agrochemical industry. Widecover is engaged in the trading of active ingredients, intermediates and formulations. Further, the Group also manufactures formulations under the entity - Cropthetics, UK.

Diversified customer base with track record of repeat business - The company caters to a diversified customer base across the international and domestic markets. The company's exports are geographically diversified across Europe, Asia Pacific, USA, Australia and New Zealand. Further, the company's domestic sales are spread across 10-11 states. The company has been receiving repeat orders from its existing customers.

Credit challenges

Product concentration risk - CIPL faces product concentration risk compared to the other industry players in the agrochemical industry who have a diverse product portfolio. CIPL manufactures intermediates and AIs, mostly in the herbicide and fungicide categories. The three major AIs produced by CIPL are FFC (Fluazinam Technical, herbicide), FATM (Flufenacet Technical, fungicide) and DTH (Dithianon), which contributed to almost 60% of the total revenue in FY2022 and ~74% in 9M FY2023. However, the major AIs produced by CIPL are used to manufacture diverse formulations. Further, the company has been increasing its registrations over the years and expects to add many molecules to the AI portfolio, going forward.

Raw material procurement and price risks and foreign exchange volatility - About 40-50% of CIPL's total raw material requirement was earlier met through imports, majorly from Chinese suppliers, exposing the company to concentration risk. Any significant disruption in supply from China could have had an adverse impact on the company's operations and profit margins. However, the company has been reducing the concentration from China by procuring from domestic suppliers. The company is also exposed to foreign exchange volatility due to the significant export revenues.

Regulated nature of industry and 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 CIPL is mitigated, to some extent, by its diversified geographical presence across countries internationally and across states in the domestic market.

High working capital intensity - The working capital intensity remained high because of the high receivable and inventory levels. Given the seasonality of the business, the receivables have increased significantly since 2021, impacting the working capital cycle. Further, the company is required to maintain high finished goods inventory at the beginning of the seasons. It also has to maintain a high level of raw material inventory as a significant portion is met through imports. CIPL gives a credit period of about 90-120 days to its customers. The nature of the business is export-oriented and considering the industry and sales in various geographies, the debtor days are likely to remain high. The NWC/OI stood at 35% as on March 31, 2023 and is likely to remain at similar levels in the future.

Liquidity position: Adequate

CIPL's liquidity is adequate with expected healthy cash flow from operations in FY2024, cash and bank balances of ~Rs. 46 crore as on June 30, 2023 and undrawn working capital limits of ~Rs. 73 crore as on Aug 31, 2023. It has utilised bank limits of 52% on an average in the last few months. CIPL has a debt repayment of Rs. 7.40 crore in FY2024 and a capex commitment of ~Rs. 220 crore in FY2024 & FY2025 to set up a new unit, which is likely to be funded from OCDs issued.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to significantly scale up its revenue and profitability on a sustained basis along with diversifying its product profile and maintaining its liquidity position.

Negative factors – Pressure on CIPL's ratings could arise if the revenues and operating margins decline, resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle and any sizeable debt-funded capex impacting the company's liquidity position could also be a trigger for a downgrade. The ratings may also be downgraded if the TOL/TNW is more than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in Agrochemicals Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company:

Cropnosys India Private Limited (CIPL) was started in April 2006 by Mr. Gurvinder Singh. At present, it manufactures crop protection products across categories such as herbicides, fungicides, insecticides, etc. The company is also involved in the sales of crop micronutrient products. The company has two manufacturing facilities at Vapi with an installed annual capacity of 2,400 MT per annum.

Key financial indicators

Standalone	FY2022	FY2023*
Operating income	459.3	672.1
PAT	67.0	109.7
OPBDIT/OI	18.4%	21.2%
PAT/OI	14.6%	16.3%
Total outside liabilities/Tangible net worth (times)	1.3	1.0
Total debt/OPBDIT (times)	0.6	0.4
Interest coverage (times)	39.9	44.6

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

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 as on June 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 12, 2023	June 06, 2023	May 04, 2022		
1	Cash credit	Long term	45.0	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	-	-
2	Fund based/non fund based - Others	Long term and short term	55.0	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-
3	Optionally convertible debentures	Long term	300.0		[ICRA]A-(Stable)	-	-	-	-
4	Unallocated	Long term and short term	0.0	-	-	-	[ICRA]BBB+(Stable)/[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long term/short term- Fund based/ non fund based - Others	Simple
Optionally convertible debentures	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	45.00	[ICRA]A-(Stable)
NA	Fund based/non fund based - Others	NA	NA	NA	55.00	[ICRA]A-(Stable)/ [ICRA]A2+
NA	OCD	Yet to be issued	6%	NA	300.00	[ICRA]A-(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis- Not applicable

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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.

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