

November 10, 2023

GSP Crop Science Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based - Term loan	115.42	68.57	[ICRA]A-(Stable); reaffirmed
Long term fund-based - Working capital term loan	38.39	25.17	[ICRA]A-(Stable); reaffirmed
Long term/short term – Fund-based - Others	187.50	212.50	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed
Long term/short term – Non-fund based - Other	5.50	5.50	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed
Short term fund-based/non-fund based - Others	15.00	15.00	[ICRA]A2+; reaffirmed
Short term non-fund based - Others	165.00	165.00	[ICRA]A2+; reaffirmed
Long term/short term unallocated	0.00	35.07	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed
Total	526.81	526.81	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to factor in the long track record of GSP Crop Science Private Limited (GSP) in the agrochemical industry, its diversified customer base across the international and domestic markets and its extensive sales channel, including B2B, B2C and exports. The ratings also factor in the expectation of the profitability improving, going forward, after a relatively weak profit generation in FY2023. The operating margins were impacted in FY2023 due to a steep decline in prices, resulting in inventory losses. The margins have improved in the current fiscal and the trend is likely to sustain, aided by the introduction of new products and GSP's shift to a relatively low inventory holding period policy.

The capital structure remains comfortable with gearing at 0.89 times as on March 31, 2023. Though the debt metrics had moderated in FY2023 with total debt/OPBDITA at around 3.9 times, interest coverage at 2.25 times and NCA/TD at 13% owing to the pressure on margins, they are likely to improve in the current fiscal. However, the gearing and the debt metrics are likely to moderate if the company avails debt to fund the buyout of the remaining private equity stake.

The company's revenue grew at a CAGR of 16% during FY2019-FY2023 with the operating income increasing to ~Rs. 1,534 crores in FY2023 from Rs. 743 crores in FY2019, driven by new product registrations in various regulated markets. The company has applied for patents for some of its new products, which along with the other product launches are likely to aid the growth in volumes and profitability going forward.

The ratings are constrained by the moderately high working capital intensity of the business, intense competition in the industry and the susceptibility of the operations to any adverse regulatory developments related to manufacturing/sales of agrochemicals. Moreover, GSP's revenues and profitability remain vulnerable to agroclimatic conditions, volatility in raw material prices and foreign exchange rates, as part of the raw material requirement is met through imports. The forex risk is partially mitigated through the natural hedge from exports.

Key rating drivers and their description

Credit strengths

Diverse product portfolio and well-established presence in agrochemical industry - GSP has an established presence in the agrochemical industry for around three decades. The company has grown its business by consistently modernising, enhancing its production capacity and catering to many large agrochemical companies. GSP has a well-diversified portfolio of products across segments, such as insecticides, herbicides, fungicides, plasticisers etc. It has a diversified revenue profile with branded sales contributing 35-40% and exports accounting for 11% of the revenue. Further, the dependence on individual products is limited to below 10%.

Moderate customer concentration risk - The company caters to a diversified customer base across the international and domestic markets. GSP's products are exported to more than 60 countries covering Latin America, including the US, along with Australia, Africa, Asia and the Middle East. The company has a pan-India presence with majority of the domestic sales in six to seven states. The company has been receiving repeat orders from its existing customers.

Comfortable financial profile; debt metrics moderated in FY2023, but are likely to improve – The company's revenue grew at a CAGR of 16% during FY2019-FY2023 with the operating income increasing to ~Rs. 1,534 crore in FY2023 from Rs. 743 crore in FY2019. The revenues rose substantially in the last five years owing to new product registrations in various regulated markets, supported by an increase in the number of customers along with higher orders from existing customers. The operating margins were impacted in FY2023 due to a steep decline in prices, resulting in inventory losses. The margins have improved in the current fiscal and the trend is likely to sustain, aided by the introduction of new products and GSP's shift to a relatively low inventory holding period policy. The debt metrics moderated in FY2023 with net debt/OPBDITA at around 3.4 times, interest coverage at 2.25 times and NCA/TD at 13% in FY2023 owing to the pressure on margins, but are likely to improve in the current fiscal and the coming years.

Favorable demand prospects – Agrochemicals play a critical role in ensuring the food and nutrition security of the nation, and efficient usage of crop protection products and solutions for Indian agriculture is the need of the hour. Agrochemicals could play a significant role in overcoming this imbalance. The Indian crop protection market is supported by strong growth drivers. ICRA believes that GSP will improve its business performance over the medium term, with healthy growth prospects in the agrochemical segment.

Also, the company has launched two products which contributed to the sales and margins in FY2023. It has also applied for patent for about 140 products, of which it has received patent for 40 products. Of these 40 products, 10 products have been launched and the remaining will be introduced in a phased manner in the coming years. Sales worth Rs. 200-300 crore are generated through these products, and are set to increase in the coming years.

Credit challenges

Working capital-intensive operations – GSP's working capital intensity remains high (NWC/OI of 27% in FY2023 and 30% in FY2022) because of the high receivable days. GSP has worked cautiously on its inventory holding policy and has shifted to a low inventory holding period. As on September 30, 2023, the company had inventory of less than Rs. 200 crore. The management expects the inventory levels to be around Rs. 300 crore by March 2024 as the inventory builds up in March for the selling window from April to June for the kharif season. But the debtor days have increased as pressure on market demand and excess inventory forced GSP to offer longer credit periods to its customers to push up sales. However, the company has a provision of Rs. 12-13 crore for bad debt. Last year, it had also availed credit insurance, which secures it from any bad debt instances.

Regulated industry and exposure to agro-climatic risk - The agrochemical industry is highly regulated in both the international and domestic markets. Further, any new product takes 3-5 years to get registered. Poor monsoons translate into slower

agrochemical offtake and, therefore, affect the performance of the agrochemical entities. However, the risk for GSP is mitigated, to some extent, by its diversified geographical presence across various countries internationally and across states in the domestic market.

Exposure to raw material procurement and price risk and foreign exchange volatility - Around 90% of GSP's imports are from China. GSP faced some supply issues due to China's zero Covid policy, border tensions etc and, therefore, GSP is working on reducing its dependence on China. The company has tied up with some domestic suppliers who will supply to it on priority. Further, it has tied up with a few vendors to manufacture these raw materials for GSP, in which the latter will have the priority in getting these supplies. Imports remain a sizeable portion of the total raw material requirement. The company has a natural hedge to some extent against exports. For the balance, the company hedges selectively, taking plain forwards to cover 20-25% of the exposure falling due in the next 30-45 days.

Liquidity position: Adequate

GSP's liquidity remains adequate with healthy operational cash flows of Rs. 42.89 crore and cash and bank balance of Rs. 43.35 crore as of March 2023. The utilisation of fund-based limits remained around 85% on average with a maximum utilisation of 93%. As on July 31, 2023, it had cushion from undrawn limits of Rs. 62.96 crore against the sanctioned limits.

Rating sensitivities

Positive factors – ICRA could upgrade GSP's ratings if there is a sustained and material improvement in profitability along with a better working capital cycle that will improve the overall liquidity position.

Negative factors – Pressure on GSP'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 impacting the company's liquidity position will also affect the ratings. The ratings may also be downgraded if a significant debt-funded capex or buyback impacts the debt metrics, causing the net debt/OPBDITA to be more than 2.3 times 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	The ratings are based on consolidated financials of GSP along with its subsidiaries Rajdhani Petrochemicals Private Limited and Indo GSP Chemicals LLP

About the company

GSP Crop Science was promoted by Mr. Vrajmohan R. Shah in 1985 as a manufacturer of single super phosphate fertilisers. Today, it manufactures technical grade ingredients and formulates insecticides, fungicides and herbicides, intermediates, biopesticides, seed treatment chemicals and public health products. More than 900 experienced employees are employed at its sites in Ahmedabad and Baroda, Gujarat. GSP products reach its customers through 23 C and F depots and more than 7,900 dealers across India. The products are exported to more than 60 countries covering Latin America, including the US, and Australia, Africa, Asia and the Middle East.

Key financial indicators (audited)

GSP Consolidated	FY2022	FY2023
Operating income	1,442.6	1,534.4
PAT	75.6	21.6
OPBDIT/OI	9.2%	5.4%
PAT/OI	5.2%	1.4%
Total outside liabilities/Tangible net worth (times)	1.6	2.1
Total debt/OPBDIT (times)	2.4	3.9
Interest coverage (times)	5.5	2.2

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on 31 st Oct, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 10, 2023	Sep 01, 2022	-	-
1 Fund-based term loan	Long term	68.57	64.61	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
2 Fund-based working capital term loan	Long term	25.17	23.73	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
3 Fund-Based - Others	Long Term and Short Term	212.50	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-
4 Non-fund based - Others	Long Term and Short Term	5.50	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	-	-
5 Short term - Fund based/non-fund based - Others	Short term	15.00	--	[ICRA]A2+	[ICRA]A2+	-	-
6 Short term - Non-fund based - Others	Short term	165.00	--	[ICRA]A2+	[ICRA]A2+	-	-
7 Unallocated	Long Term and Short Term	35.07	--	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based - Term loan	Simple
Fund-based - Working capital term loan	Simple
Fund-based – Others	Simple
Non-fund based – Others	Simple
Short term – Fund-based/non-fund based – Others	Simple
Short term – Non-fund based – Others	Very Simple
Long term/short term unallocated	Not Applicable

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	Term loan	April 2019 - March 2022	9.65%-10.30%	April 2024 - March 2028	68.57	[ICRA]A-(Stable)
NA	Working capital term loan	April 2022	8.05% - 10.20%	March 2023	25.17	[ICRA]A-(Stable)
NA	Fund based	NA	NA	NA	212.50	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Non-fund based	NA	NA	NA	5.50	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Fund-based/non-Fund based	NA	NA	NA	15.00	[ICRA]A2+
NA	Non-fund based	NA	NA	NA	165.00	[ICRA]A2+
NA	Unallocated limits	NA	NA	NA	35.07	[ICRA]A-(Stable)/ [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	GSP Ownership	Consolidation Approach
GSP Crop Science Pvt Ltd	100.00% (rated entity)	Full Consolidation
Rajdhani Petrochemicals	99.99%	Full Consolidation
Indo GSP Chemicals LLP	76.00%	Full Consolidation

Source: GSP annual report FY2021

Note: ICRA has consolidated the financials of the parent (GSP), its subsidiaries and associates while assigning the ratings.

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