November 28, 2023

Dhanuka Agritech Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working capital facility	30.00	30.00	[ICRA]AA (Stable); reaffirmed
Non fund based-LC/BG	33.35	33.35	[ICRA]A1+; reaffirmed
Total	**63.35**	**63.35**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in Dhanuka Agritech Limited's (DAL) established market position in the Indian agrochemical market, supported by its diverse product portfolio (across all agrochemical categories), strong brand presence and a wide distribution network and geographical presence in the domestic market. Its long-standing relations with reputed international technical manufacturers, which enable it to regularly introduce specialty formulations, also support the ratings. The ratings also factor in the backward integration into manufacturing technicals which is expected to provide raw material security as well as expand the contribution levels.

The ratings also factor in DAL's healthy credit profile and expectations of the trend continuing, going forward, with strong operating margins and leverage and coverage metrics. ICRA expects the cash accruals to remain adequate to meet the capex requirements as well as cash outflow to investors in the form of dividends/buybacks, leading to no reliance on external debt. In FY2023, the company's performance was marked by healthy revenue growth with increase in realisation and volume growth. The operating margins witnessed some decline in FY2023 via-a-vis FY2022 as volatile crude oil prices led to elevated raw material cost. The volume growth continued in H1 FY2024, though it is expected to remain muted amid erratic rainfall, even as product launches are likely to provide some traction. DAL's liquidity position remains strong on the back of healthy internal accrual generation, robust free cash balances/liquid investments, undrawn bank lines and no debt repayment liability.

However, the ratings are constrained by the relatively high working capital intensity of the business, intense competition in the industry that limits the pricing flexibility of industry participants, including DAL, and the susceptibility of operations to any adverse regulatory development related to manufacturing/sales of agrochemicals or any discontinuation of tie-ups with international technical manufacturers. Moreover, DAL's revenues and profitability remain vulnerable to agroclimatic conditions, volatility in raw material prices and foreign exchange rates, given that part of the raw material requirement is met through imports. ICRA notes that the management had in the past supported DAL's inorganic growth plans and has again approved a need-based loan facility of up to Rs. 50 crore. Any materially large support to the Group's ventures would remain a key monitorable.

The Stable outlook on the rating reflects ICRA's expectation that DAL's credit profile will remain comfortable, going forward, driven by healthy cash generation and large cash balances at hand which should allow the company to comfortably meet the capex requirement and remain free from long-term debt.

Key rating drivers and their description

Credit strengths

Leading player in industry - DAL has an established operational track record and its promoters have extensive experience of around three decades in the agrochemical industry. The company is one of the few players in the industry with a healthy scale of operations and a well-entrenched distribution network across the country. The company undertakes several initiatives for educating and supporting farmers, which has enabled the company to develop a strong brand recall among the end users.

Well-diversified product portfolio and geographical presence mitigates risk of poor performance of any region or crop- DAL has a well-diversified portfolio of products across insecticides and herbicides as well as across crops. The company also has a well-entrenched distribution network across the country. As a result, DAL's performance is largely protected against the poor performance of a particular crop or region.

Long-standing relations with reputed MNC technical manufacturers allow entry into speciality products which offer better margins than generic products - DAL has associations with reputed international technical manufacturers (such as Nissan Chemicals, FMC Corporation, and Hokko Chemicals), which provide access to speciality molecules. Almost 40–50% of the company's revenues are driven by the sales of speciality formulations, which also support the profit margins. Going forward too, the increased revenue contribution from speciality formulations is expected to aid DAL's profit margins as the company has a healthy pipeline of product launches.

Comfortable financial profile - DAL's financial risk profile remains comfortable, characterised by healthy cash generation, low debt levels and a robust liquidity position. The company's capitalisation and coverage metrics have remained robust with gearing levels of 0.01 times in FY2023. The interest coverage improved to 89.4 times in FY2023 vis-à-vis 77.2 times in FY2022. The liquidity profile remains strong with nearly Rs. 100.1 crore of cash and equivalents at the end of FY2023.

Expected benefits of backward integration from technical manufacturing plant at Dahej - DAL has set up a technical manufacturing plant at Dahej, Gujarat, with a total capital outlay of Rs. 225 crore, of which ~Rs. 120 crore was capitalised in the previous fiscal and the balance is expected to be capitalised in the current fiscal. The plant will provide raw material security and the benefit of backward integration in the form of lower raw material costs. ICRA expects DAL to start benefitting from the backward integration from the next fiscal.

Credit challenges

High competitive intensity limits pricing flexibility- The intensely competitive and fragmented agro-chemical industry exerts pricing pressure and necessitates constant marketing and branding expenditure. Nevertheless, DAL benefits to an extent because of its strong brand presence.

Operations vulnerable to varying agro-climatic conditions and regulatory risks - The company's sales and profitability remain susceptible to the agro-climatic conditions, development of pest-resistant genetically modified (GM) seeds and the regulatory risks inherent in the business. This is evident from the moderation in revenue growth and contraction in margins in the past due to sub-par monsoons. Further, the Government of India (GoI) had earlier issued a draft order to ban the use of 27 pesticides after consultation with the Central Insecticides Board and Registration Committee (CIBRC/Registration Committee). While the order is being reassessed following the representations by industry participants, the imposition of the ban can adversely impact the sector's players, including DAL, though the latter's dependence on these products remain relatively low.

Exposure to raw material price and foreign exchange volatility – Dependence on imports for 20–30% of its raw material requirement exposes DAL's profit margins to the volatility in raw material prices and foreign exchange rates. Moreover, tie-ups for technicals are critical for DAL's business position. Therefore, it remains exposed to the risk of discontinuation of such tie-ups, or increase in competition from other formulators, or the primary supplier developing its own formulation.

Moderately high working capital intensity - The company needs to maintain high raw material and finished goods inventory, given the seasonality inherent in demand, a diverse product portfolio, dependence on imports for raw materials and a wide distribution network across the country. This has continued to result in a relatively high working capital intensity.

Environmental and Social Risks

DAL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety. However, DAL has been compliant with the environmental regulations. Nonetheless, it remains exposed to the ban on the use of hazardous chemicals, given their impact on human health. But the company is likely to introduce new products and phase out the hazardous ones to mitigate this risk.

Liquidity position: Strong

The company's liquidity position is strong on the back of healthy internal accrual generation, sizeable free cash balances/liquid investments (~Rs. 100.1 crore as of end of March 2023) and no debt repayment liability. Going forward, despite undertaking sizeable capex, the liquidity position is expected to remain strong, driven by healthy cash generation.

Rating sensitivities

Positive factors – The ratings could be upgraded if DAL demonstrates a significant growth in revenue along with healthy cash generation and a sustained strong liquidity position.

Negative factors – The ratings could be revised downwards if there is a considerable decline in revenue and pressure on the profit margins. Moreover, elongation in the working capital cycle, or a sizeable debt-funded capex, or funding support to related companies may put pressure on the liquidity position and lead to a downward revision of the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Agrochemical Industry
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of DAL; as on March 31, 2023, the company had one subsidiary (enlisted in Annexure-II)

About the company

DAL is a part of the Delhi-based Dhanuka Group. It is involved in the formulation and marketing of agro-chemicals like insecticides, pesticides, herbicides, etc. The company's manufacturing facilities are at Sanand (Gujarat), Udhampur (Jammu and Kashmir) and Keshwana (Rajasthan).

Key financial indicators (audited)

	FY2022	FY2023
Operating income	1,477.8	1,700.2
PAT	208.9	233.5
OPBDIT/OI	18.0%	16.4%
PAT/OI	14.1%	13.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	77.2	89.4

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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 28, 2023	Oct 04, 2022	Sept 06, 2021	Sept 21, 2020
1	**Working capital facilities**	Long term	30.00	-	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**
2	**Non-fund based-LC/BG**	short term	33.35	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working capital facilities	Simple
Short term - Non-fund based	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Fund-based - Working capital facilities**	-	-	-	30.00	[ICRA]AA (Stable)
-	**Non-fund based-LC/BG**	-	-	-	33.35	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	DAL Ownership	Consolidation Approach
Dhanuka Agritech Limited	100.00% (rated entity)	Full Consolidation
Dhanuka Agri Solutions Private Limited	100.00%	Full Consolidation

Source: *DAL's annual report FY2023*

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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.

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