February 05, 2024

Willowood Chemicals Limited (erstwhile known as Shreeji Agchem Pvt. Ltd.): Ratings reaffirmed and outlook revised to Stable from Positive

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	485.00	571.00	[ICRA]A(Stable); reaffirmed; outlook revised to Stable from Positive
Long term/short term unallocated	120.00	34.00	[ICRA]A(Stable)/[ICRA]A2+; reaffirmed; outlook revised to Stable from Positive
Total	**605.00**	**605.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook of Willowood Chemicals Limited (WCL/the company) is driven by a slower-than-expected ramp-up of the operations at the recently commissioned active ingredient (AI) manufacturing plant at Dahej under the wholly-owned subsidiary, Willowood Industries Private Limited (WIPL). The production ramp-up has been sluggish on account of a slowdown in demand for the products that were being planned under the facility, which led the company to reconfigure the plant to a multi-product facility. The delay in the ramp-up of the facility also moderated WCL's liquidity position due to the enhanced support required at WIPL's level and thus the consolidated credit profile is also expected to witness moderation in FY2024.

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 the company over a decade. The company is present across the entire agrochemical value chain and has consolidated its operations effective from April 1, 2020 under a single entity. 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 12,000 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 to over 70% of 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.

ICRA notes that the company has commercialised production from both phases at its Dahej plant (Phase 1 in December 2022 and Phase 2 in December 2023), which reduces the project risk associated with the construction of the AI manufacturing plant, although there was a delay at the start of commercial production. ICRA notes that the project costs have been revised to around Rs. 560 crore from Rs. 330 crore earlier, partially due to the cost escalation caused by commodity price inflation and the change in the scope of project. The incremental costs are being funded using a mix of debt and internal accruals and a major part of the incremental capex has been funded using equity funding from WCL which has kept the reliance on external debt in line with the earlier levels.

ICRA notes that once the operations ramp up, the backward integration will improve WCL'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 underway. Further, WIPL's ability to keep up with competition by significantly scaling up the operations and achieving further geographic and customer diversification will remain crucial for an overall improvement in the credit profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in agrochemical industry – The company was promoted by Mr. Vijay Mundhra and Mr. Parikshit Mundhra in 2006. Mr. Vijay Mundhra 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 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 the research and development (R&D) of the new AIs and formulations combination. 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 12,000 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 80 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 a 100% subsidiary of the company, specialises in supporting 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 jointly for these products. The group has 28 approved patents, of which around 11 are marketed at present by WCL, post approval from the CIBRC. The patent is granted for a period of 20 years from the date of application 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 the B2C and B2B segments. For its B2B segment, the company has more than 100 customers, including Dhanuka Agritech, Sumitomo Chemical India, Chambal Fertilisers and Chemicals, PI Industries, 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, though it will continue to be high.

High working capital intensity – The working capital intensity (net working capital/operating income, NWC/OI) of the company remained stable at 43% in FY2023 over FY2022, though remaining high. 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 115-125 days, as is the trend in the industry.

Regulated nature of industry – The agrochemical industry is highly regulated in the domestic market with stringent norms for registering the products to be produced and sold in India. The products remain susceptible to bans or restrictions owing to their poisonous nature and thus the industry has to ensure the products are compliant with the regulatory norms.

Subdued ramp-up of the new AI facility – The company has set up a new production facility for AIs at Dahej (Gujarat) under its wholly-owned subsidiary, WIPL. The project is divided into two phases and five plants. The first phase (plants - I, III and IV) was commissioned in December 2022, though commercial production was delayed by six months, while the second phase (plants – II and V) was commissioned in December 2023. The project cost has increased to ~Rs. 560 crore mainly due to changes in the scope of project. Till September 2023, the company has already incurred around Rs. 565 crore of capex, inclusive of GST of Rs. 51 crore. For the balance capex of Rs. 45-50 crore, which is expected to be incurred in the current fiscal i.e., FY2024, the company may avail additional debt from the existing lenders or infuse further equity. The scaling of operations at the new technical facility remains a key monitorable.

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

Liquidity position: Adequate

At a consolidated level, WCL's liquidity position remains adequate with healthy annual fund flow from operations. The company's unencumbered cash balance and investments stood at Rs. 38 crore as on March 31, 2023. WCL also had a sanctioned interchangeable working capital facility of Rs. 596.0 crore as on December 31, 2023. The average utilisation of the fund-based limits remained at around 89% in the last 12 months. The liquidity will be affected to some extent by moderate scheduled repayments over the medium term. WCL has an outstanding term loan of Rs. 200.7 crore as on March 31, 2023, towards which there are repayment obligations of Rs. 11.6 crore in FY2024 and Rs. 51.7 crore in FY2025. The company has moderate plans for capex over the next few years, for which ~Rs. 120-140 crore will be incurred in FY2024 and FY2025, to be funded through a mix of debt and internal accruals.

Rating sensitivities

Positive factors – A significant increase in the scale of operations along with a healthy ramp-up of the new Dahej facility, resulting in an improvement in operating profitability and liquidity position could lead to an upgrade. A specific credit metric for upgrade would be total debt/OPBDITA of less than 1.8x on a sustained basis.

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 for downgrade would be total interest coverage ratio of less than 5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology: Agrochemicals Industry
Parent/Group support	Not applicable

Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Willowood Chemicals Limited and its subsidiaries enlisted in Annexure II

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)

WCL Consolidated	FY2022	FY2023
Operating income	1460.3	1813.1
PAT	83.2	48.7
OPBDIT/OI	13.1%	9.9%
PAT/OI	5.7%	2.7%
Total outside liabilities/Tangible net worth (times)	0.62	0.89
Total debt/OPBDIT (times)	2.39	4.09
Interest coverage (times)	7.51	4.53

Source: Company, ICRA Research; 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 March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 05, 2024	Apr 04, 2023	-	Feb 23, 2022	Feb 26, 2021
1	Fund based/Non-fund Others	Long term	571.0	--	[ICRA]A (Stable)	[ICRA]A (Positive)	-	[ICRA]A (Stable)	-
2	Fund-based/CC	Long term	-	--	-	-	-	-	[ICRA]A- (Stable)
3	Unallocated limits	Long term and short term	34.0		[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Positive)/ [ICRA]A2+	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long termfund based/Non-fund based/Others	Simple
Long term/Short term: Unallocated limits	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	571.00	[ICRA]A(Stable)
NA	**Long term/short term unallocated**	NA	NA	NA	34.00	[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	Ownership	Consolidation Approach
Willowood Chemicals Limited	100%	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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