September 24, 2024

Intech Organics Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Cash credit - Fund based	97.50	103.90	[ICRA]BBB+ (Stable); reaffirmed/assigned for enhanced amount
Long term - Term loan - Fund based	32.99	52.12	[ICRA]BBB+ (Stable); reaffirmed/assigned for enhanced amount
Short term – Others – Non-fund based	32.25	37.25	[ICRA]A2; reaffirmed/assigned for enhanced amount
Long term/Short term - Unallocated	27.26	92.73	[ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed/assigned for enhanced amount
Total	**190.00**	**286.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes into account Intech Organic Limited's (IOL) established presence and leading position in the methyl bromide (MeBr) market, and the significant experience of its promoters in fumigation services through Group company, Pest Kare (India) Private Limited (PKIPL). This has resulted in an established customer base, leading to repeat orders. Further, ICRA factors in the high entry barriers in the MeBr industry. The company reported healthy profitability in the existing business segments, which is likely to continue. The scale and profit generation is expected to improve with the addition of the planned bromine derivatives – clear brine fluids (CBF) and hydrobromic acid (HBr).

Additionally, ICRA notes that the company, under its subsidiary, is undertaking a large debt-funded capex which will moderate its consolidated debt protection metrics. This capex is sizeable vis-à-vis IOL's existing asset base and exposes it to project execution risks. Further, the project remains exposed to risks related to the stabilisation and ramping up of scale. However, this project will aid backward integration for the bromine derivatives that the company is venturing into and will also improve the cost structure, apart from leading to a consistent supply of the raw materials.

While the MeBr volumes have moderated, they are expected to improve because of the supply issues globally owing to the geopolitical scenario and curtailment of production by a leading global supplier. IOL also ramped up the commercial production of aluminium phosphide (ALP) in FY2024, which is likely to support the overall revenue growth, going forward. ALP, along with the bromine derivatives planned, is likely to reduce IOL's dependence on MeBr, given the restricted use of the chemical and its ozone-depleting characteristics.

The ratings are constrained by the vulnerability of profitability to changes in raw material prices and the adverse exchange rate movement. ICRA also continues to consider the stringent regulations for MeBr as it is a highly toxic product that requires specialised storage and handling infrastructure. The demand for the company's products remains dependent on the regulatory environment as the use of MeBr is restricted under the Montreal Protocol.

The Stable outlook on the [ICRA]BBB+ rating conveys ICRA's belief that IOL will continue to benefit from the healthy experience of its promoters and its established customer base and will be able to generate steady cash flows from its core operations. Despite the expected moderation in the credit profile in the near term owing to the sizeable debt-funded capex, the credit profile is expected to improve as the new capex starts generating returns and will remain comfortable over the medium term.

Key rating drivers and their description

Credit strengths

Experience of promoters in fumigation services - IOL, incorporated in 1999, began manufacturing MeBr in 2004. The current promoters took over the company in 2007 from the original promoters. IOL also has a Group company which is involved in the business of fumigation services and trading of fumigants.

High entry barriers and lack of effective alternatives; market leadership position – IOL manufactures MeBr, the use of which is regulated by the Montreal Protocol. As per the treaty, the production of MeBr must be carried out in a very controlled environment and the product can be used for quarantine pre shipment (QPS) services only. Hence, it is very difficult for new entrants in the industry to establish a foothold in this segment. The lack of effective alternatives for QPS provides favourable prospects for MeBr. However, any change in the regulatory policy would be a key monitorable. Moreover, IOL has a market leadership position globally in this segment. The total global market size is estimated at 15-16,000 MT of which IOL supplies around 3,000-4,000 MT, translating into a healthy market share.

New products may reduce dependence on MeBr, leading to diversification of revenue base – IOL is venturing into new products which are bromine derivatives – namely CBF, HBr, etc - which will not only provide new avenues of growth, but will also act as a diversification from MeBr. The company, under its subsidiary, is also setting up a bromine unit, which will act as backward integration for these products. Thus, once the production of these products start (starting from H2 FY2025 to H1 FY2026), the operating and financial performance is expected to improve.

Credit challenges

Sizeable debt-funded capex for bromine facility, exposing company to project implementation risks; debt metrics to moderate in the near to medium term – IOL, under its subsidiary, is setting up a Rs. 540-crore bromine manufacturing unit in the Rann of Kutch. This project is proposed to be funded by an equity of Rs. 160 crore (of which Rs. 100 crore will be infused by the promoters and the balance would come from IOL's cash flows) and the balance through a debt of Rs. 360 crore. The project is exposed to implementation risks, as till now only Rs. 70-80 crore has been incurred. The sizeable debt addition is likely to impact the company's debt metrics, especially in FY2026. However, as the production ramps up for downstream projects as well as for bromine, the cash accruals are expected to get better, improving the debt metrics, going forward.

Strong regulatory control over product and its usage – IOL operates in an industry characterised by stringent Government regulations as it deals with a highly toxic product that requires specialised storage and handling infrastructure. The demand for the company's products remains dependent on the regulatory environment as the use of MeBr is restricted under the Montreal Protocol. While the company has made attempts to diversify its product portfolio, further diversification of its product portfolio will remain a key monitorable.

Foreign exchange rate volatility and raw material price variation – The key raw material required to manufacture MeBr is bromine, which constitutes about 80% of the raw material cost. The company procures bromine from Dead Sea-Albemarle Europe SPRL (Albemarle), a Belgium-based company, as well as from one of the domestic manufacturers to meet its requirements.

Liquidity position: Adequate

The liquidity position of IOL is adequate with cushion in working capital limits and healthy cash generation from its business, even as the company embarks upon a sizeable debt-funded capex.

Rating sensitivities

Positive factors – ICRA could upgrade IOL's ratings on successful commissioning of the bromine project on time without major cost overruns. Further, an improvement in the scale of operations along with the sustenance of healthy profitability margins and an efficient working capital management will be key for an upgrade.

Negative factors – ICRA could downgrade the ratings if there is a decline in the profitability margins, or if a deterioration in the working capital parameters weakens the financial risk profile. In addition, any major cost or time overruns in the bromine project or delays in ramp-up can result in a rating revision. Any adverse regulatory change could also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of IOL with its subsidiaries as mentioned in Annexure II, given the common management and significant operational and financial linkages among them

About the company

IOL, incorporated in 1999, commenced the commercial production of MeBr in 2004. The name and corporate status of the company changed from Intech Pharma Private Limited in September 2017. The gas is primarily used for the fumigation of commodities (rice, wheat and other foodgrains) or other materials that are packed in wooden containers and are prone to infestation by pests. The current promoter, Mr. Navanshu Saharan, took over the company in 2007 from the original promoters. IOL is an associate company of PKIPL, a company promoted by the Saharan family, which is involved in the business of fumigation services and trading of fumigants. PKIPL provides services such as vessel on-board fumigation, container fumigation, empty shiphold fumigation, bulk/bagged commodity fumigation and factory/plant fumigation.

Key financial indicators

IOL Consolidated	FY2023	FY2024*
Operating income	339.2	340.8
PAT	44.3	40.0
OPBDIT/OI	21.9%	22.4%
PAT/OI	13.0%	11.7%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	2.1	2.2
Interest coverage (times)	5.6	4.8

*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

	Current (FY2025)				Chronology of rating history for the past 3 years					
	FY2025				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs crore)**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term - Cash credit – Fund-based	Long term	103.90	24-SEP-2024	[ICRA]BBB + (Stable)	24-JUL-2023	[ICRA]BBB + (Stable)	05-MAY-2022	[ICRA]BBB+ (Stable)	02-JUN-2021	[ICRA]BBB+ (Stable)
Long term - Term loan – Fund-based	Long term	52.12	24-SEP-2024	[ICRA]BBB + (Stable)	24-JUL-2023	[ICRA]BBB + (Stable)	05-MAY-2022	[ICRA]BBB+ (Stable)	02-JUN-2021	[ICRA]BBB+ (Stable)
Short term – Others – Non-fund based	Short term	37.25	24-SEP-2024	[ICRA]A2	24-JUL-2023	[ICRA]A2	05-MAY-2022	[ICRA]A2	02-JUN-2021	[ICRA]A2
Long term/Short term – Unallocated	Long term/ Short term	92.73	24-SEP-2024	[ICRA]BBB + (Stable)/ [ICRA]A2	24-JUL-2023	[ICRA]BBB + (Stable)/ [ICRA]A2	05-MAY-2022	[ICRA]BBB+ (Stable)/ [ICRA]A2	02-JUN-2021	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund based – Cash credit	Simple
Short term – Non-fund based - Others	Very 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	Term loan	FY2020 – FY2024	8%-10% p.a.	FY2025 - FY2031	52.12	[ICRA]BBB+ (Stable)
NA	Cash credit	NA	NA	NA	103.90	[ICRA]BBB+ (Stable)
NA	Non-fund based limits	NA	NA	NA	37.25	[ICRA]A2
NA	Unallocated	NA	NA	NA	92.73	[ICRA]BBB+ (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
Intech Organics Limited	100.00% (rated entity)	Full Consolidation
Intech Brinechem Limited	100%	Full Consolidation
Intech Australia Pty Limited	100%	Full Consolidation
Aarsh Trading BV	100%	Full Consolidation

Source: Company financial statements

ANALYST CONTACTS

Girishkumar Kashiram Kadam
022-61143441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches