October 30, 2024 (Revised)

Cropnosys India Pvt Ltd: Ratings downgraded to [ICRA]BBB+ (Stable)/[ICRA]A2

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]BBB+ (Stable); downgraded from [ICRA]A- (Stable)
Long term/Short term - Fund based/Non-fund based - Others	55.00	55.00	[ICRA]BBB+ (Stable)/[ICRA]A2; downgraded from [ICRA]A- (stable)/[ICRA]A2+
Optionally convertible debentures	120.00	120.00	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable)
Optionally convertible debentures	180.00	0.00	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable) and withdrawn
Total	**400.00**	**220.00**	

**Instrument details are provided in Annexure-I, Note: Earlier ratings were taken for Rs. 300 crore of OCD which were yet to be placed; however, only Rs. 120-crore has been placed and rating on Rs. 180 crore which is yet to be placed to be withdrawn*

Rationale

The rating downgrade factors in the moderation in the financial profile of Cropnosys India Pvt Ltd (CIPL) with a significant revenue de-growth and decline in the operating margins in FY2024 and H1FY2025. The operating income witnessed a decline of 38% to Rs. 418.1 crore in FY2024 from Rs. 672 crore in FY2023 owing to decrease in volumes of major products and reduced sales realisation of the products globally. The sales realisation declined sharply owing to dumping from China.

The ratings are also constrained by product concentration risk as three major products have been contributing to majority of the revenues in the last few years. The three products contributed 67% of the total revenue in FY2024. 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 debtors 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 ratings, however, consider 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, the Asia Pacific and Australia and New Zealand and the domestic sales are spread across 14 states. The ratings also factor in a healthy capital structure with comfortable debt coverage metrics and an adequate liquidity position. The capital structure remains comfortable with a gearing of 1.2 times as on March 31, 2024 and interest coverage of 8.4 times for FY2024. The company has healthy cash and bank balances of ~Rs. 188.64 crore as on September 30, 2024. ICRA notes that the company has raised Rs. 120 crore in the form of optionally convertible debentures (OCDs; downsized from the initial plan to raise Rs. 300 crore).

ICRA has downgraded and withdrawn the rating on the Rs. 180-crore optionally convertible debentures which were yet to be placed. There is no amount outstanding against these rated instruments. The rating was withdrawn in accordance with the policy on withdrawal of credit ratings.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that CIPL will continue to benefit from the vast experience of its promoters and its established track record. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, which will help expand the product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in agrochemical industry - CIPL was 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 10-15 states. The company has been receiving repeat orders from its existing customers.

Comfortable capital structure and healthy coverage metrics – The capital structure is comfortable with a gearing of 1.2 times as on March 31, 2024. The coverage metrics were also healthy with interest coverage of 8.4 times and DSCR of 8.2 times for FY2024. The leverage and coverage metrics are expected to remain healthy in FY2025 as well.

Credit challenges

Moderation in scale and profitability; high working capital intensity – The operating income declined 38% to Rs. 418.1 crore in FY2024 from Rs. 672 crore in FY2023 owing to a decrease in volumes of the major products and decline in prices drastically. The sales realisation fell sharply owing to dumping from China. CIPL gives a credit period of 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 58% as on March 31, 2024 and is likely to remain high in the future.

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 67% of the total export revenue in FY2024 and ~56% in H1 FY2025. However, the major AIs produced by CIPL are used to manufacture diverse formulations. Moreover, the product concentration has reduced over the years. 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 deliverables from China by procuring from domestic suppliers. The company is also exposed to foreign exchange volatility due to the substantial 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.

Liquidity position: Adequate

CIPL's liquidity is adequate with expected healthy cash flow from operations in FY2025, cash and bank balances of ~Rs. 188.64 crore and undrawn working capital limits of ~Rs. 85 crore as on September 30, 2024. The company has utilised bank limits of 29% on an average in the last 12 months ended September 2024. CIPL has minimal debt repayment obligations and a capex commitment of ~Rs. 80 crore in FY2025 and FY2026 to set up a new unit, which is likely to be funded from internal accruals and the existing cash balances.

Rating sensitivities

Positive triggers – The rating could be upgraded if the company is able to significantly scale up its revenues while maintaining healthy profitability and adequate liquidity position on a sustained basis.

Negative triggers – 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 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Agrochemicals Policy on withdrawal of credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of CIPL and its subsidiaries (Annexure II)

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 (audited)

	FY2023	FY2024*
Operating income	672.4	418.1
PAT	109.1	-33.2
OPBDIT/OI	20.9%	16.1%
PAT/OI	16.2%	-7.9%
Total outside liabilities/Tangible net worth (times)	0.9	1.4
Total debt/OPBDIT (times)	0.4	4.3
Interest coverage (times)	43.1	8.4

*Source: Company, ICRA Research; * Provisional consolidated numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

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					
					FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Oct 30, 2024	Date	Rating	Date	Rating	Date	Rating
Cash credit	**Long term**	45.00	[ICRA]BBB+ (stable)	June 06, 2023	[ICRA]A- (stable)	May 04, 2022	[ICRA]BBB+ (stable)		
				Oct 12, 2023	[ICRA]A- (stable)	-	-	-	-
Fund based/non fund based - Others	**Long term/Short term**	55.00	[ICRA]BBB+ (stable)/[ICRA]A2	June 06, 2023	[ICRA]A- (stable)/ [ICRA]A2+	-	-	-	-
				Oct 12, 2023	[ICRA]A- (stable)/[ICRA]A2+	-	-	-	-
Optionally convertible debentures	**Long term**	120.00	[ICRA]BBB+ (stable)	Oct 12, 2023	[ICRA]A- (stable)	-	-	-	-
						-	-	-	-
Optionally convertible debentures	**Long term**	180.00	[ICRA]BBB+ (stable); withdrawn	Oct 12, 2023	[ICRA]A- (stable)	-	-	-	-
						-	-	-	-
Unallocated	**Long term/Short term**	-	-	Oct 12, 2023	-	May 04, 2022	[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	**Long term fund-based cash credit**	NA	NA	NA	45.00	[ICRA]BBB+ (Stable)
NA	**Long term/Short term – Fund-based/Non-fund based - Others**	NA	NA	NA	55.00	[ICRA]BBB+ (Stable)/[ICRA]A2
INE0R9907023	**Optionally convertible debentures**	30-11-2023	6%	29-11-2028	120.00	[ICRA]BBB+ (Stable)
Yet to be placed	**Optionally convertible debentures**	NA	6%	NA	180.00	[ICRA]BBB+ (Stable); withdrawn

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
Cropnosys ANZ Pty Ltd*	70%	Full Consolidation

**Entity incorporated in FY2024*

Corrigendum

In the Annexure I: Instrument details table, Date of Issuance is updated.

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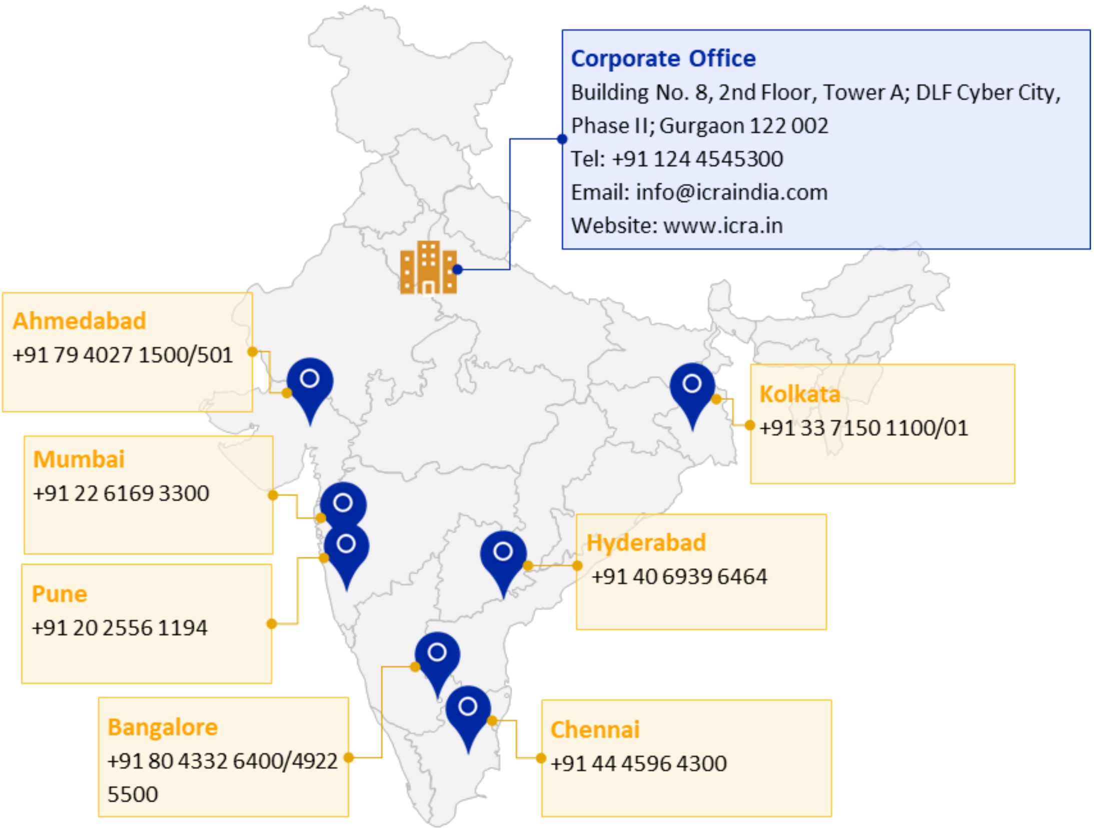

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