January 17, 2025

Indofil Industries Limited: [ICRA]AA-(Stable)/[ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Working capital – Fund-based	825.00	[ICRA]AA- (Stable); assigned
Long term - Term loan – Fund-based	115.43	[ICRA]AA- (Stable); assigned
Short term – Others – Non-fund based	228.00	[ICRA]A1+; assigned
Long term/Short term - Unallocated	959.57	[ICRA]AA- (Stable)/[ICRA]A1+; assigned
Total	**2,128.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings of Indofil Industries Limited (IIL) factors in its established market position in the Indian agrochemical market, supported by its wide product portfolio, a strong brand presence, a large distribution network and geographical presence in both the domestic and international market. The ratings also factor in IIL's presence in manufacturing both technicals and formulations. Further, backward integration into manufacturing major raw material carbon disulfide provides raw material security. The ratings also factor in the increasing focus of the company on differentiated and sustainable agri-solutions and new product developments in the specialty segment, which are expected to be the primary driving force for the revenue and profits, going forward.

The financial risk profile of the IIL Group continues to be strong, reflected in the comfortable capital structure on account of low debt. The Group's operating margin has remained healthy over the years, aided by backward integration. The debt protection metrics continue to be strong owing to low debt and strong profitability. The interest coverage ratio remains healthy, and the liquidity has been supported by strong cash & cash equivalents.

The ratings are, however, constrained by significant revenue contribution from a single molecule – Mancozeb technical and its formulations (accounting for ~47% of the revenues) and the regulatory risks associated with it. The ratings are also constrained by the relatively high working capital intensity of the business, intense competition in the industry that limits the pricing flexibility of the industry participants, including IIL, and the susceptibility of operations to any adverse regulatory development. Moreover, IIL's revenues and profitability remain vulnerable to agroclimatic conditions, volatility in raw material prices and foreign exchange rates as a part of the raw material requirement is met through imports.

ICRA notes the ongoing dispute within the K.K. Modi family. According to the management, the conflict doesn't have any impact on the operations of IIL. However, any adverse developments impacting IIL's operations and financial risk profile will remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that IIL will continue to benefit from its established market position in the domestic and overseas agrochemical markets. Further, IIL is likely to sustain its operating metrics. The outlook underlines ICRA's expectation that the entity's incremental capex, which will help expand the product portfolio and capacity, 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

Established position in agro-chemical industry - The Group has been in the agrochemical industry since 1962 and enjoys an established market position. IIL is present in the technical and formulation segments. The company's product portfolio spans various categories, including fungicides, insecticides, herbicides and specialised solutions such as plant growth nutrition products, plant growth regulators and specialty chemicals.

IIL is a major producer of Mancozeb, a widely used fungicide, and is the third-largest player in India in this segment. Its expertise and strong market presence have enabled the company to cater to diverse agricultural needs, both in the domestic and international markets.

Wide distribution network, low customer concentration risk and established relationship with reputed customers – IIL has established a wide distribution network in India comprising around 25 warehouses and more than 4,500 preferred dealers/distributors across the country. The company supplies its products to local and overseas locations and has a long-standing relationship with reputed customers and the top 5 customers contributed around 8% to the total revenue in FY2024. IIL has expanded its presence in key markets such as Brazil, Europe and the Asia-Pacific through expansions and a strong distribution network, serving both large enterprises and individual farmers in over 120 countries.

Comfortable financial profile with healthy profitability - IIL's financial risk profile remains comfortable, characterised by healthy cash generation, low debt levels and a robust liquidity position. It has demonstrated healthy revenue expansion at a compounded growth rate (CAGR) of more than 9% over the past three years ended FY2024, along with a strong operating margin of 15-20% on a consolidated basis. The company's capitalisation and coverage metrics have remained robust with gearing levels of 0.1 times as of FY2024-end. The interest coverage has remained healthy in the range of 8x-15x over the past three years. The liquidity profile remains strong with nearly Rs. 663 crore of cash and cash equivalents as on March 31, 2024.

Credit challenges

Exposure to highly regulated and competitive agrochemical industry and raw material price volatility - The agro-chemical industry is marked by heavy fragmentation as there is no key player having a sizeable market share. The intense competition results in competitive pricing and lower margins. The crop protection sector remains susceptible to various environmental rules and regulations in different countries. IIL sells its products in more than 120 countries. It operates under a strict regulatory environment as it is required to comply with various local laws, rules and regulations, considering the nature of the product usage, registration and the consequent environmental impact. Thus, the infringement of any law and any significant adverse change in the regulatory policies can impact the operations of the company. IIL has high dependence on Mancozeb(~47%), a widely used fungicide, and its formulations.

IIL procures raw materials both from domestic sources as well as through imports. The level of imports has remained at 35%-40% in recent years. Dependence on imports for its raw material requirement exposes IIL to possible risks arising from global supply chain disruption, price fluctuations, changes in trade conditions and geopolitical events.

Working capital-intensive operations - The pesticide industry requires high working capital investment due to the high inventory holding and longer credit period on sales because of the commoditised nature of the products and the seasonality of operations. IIL's working capital intensity remained high with NWC/OI of ~31% in FY2024. The average inventory holding is elevated in the range of 90-120 days. Also, IIL generally extends a credit period of ~90 days to its domestic customers, whereas overseas customers usually take 270 days to make the payments, reflected in an average collection period of 90-110 days. However, the company manages to avail a higher credit period from its suppliers in India and purchases on cash basis from foreign suppliers, resulting in an average creditor period of 90-110 days.

Operations vulnerable to varying agro-climatic conditions - The pesticide/crop protection industry derives its sales from the agriculture sector, which is vulnerable to the amount of rainfall and fungal/pest attack on crops. Major fluctuations in the total rainfall and its distribution affect the crop and overall productivity and have a direct correlation with the sales and profitability of the pesticide industry. However, the risk is partially mitigated by the company's wide geographical presence covering over 25 states in India and more than 120 countries, which reduces the dependence on a particular crop and minimises the adverse impact of an unfavourable monsoon season or crop infection in a specific state or region.

Liquidity position: Strong

The company's liquidity position is strong with healthy cash flow from operations, sizeable cash & liquid investments of ~Rs. 663 crore and undrawn working capital limits of Rs. 486 crore as on October 31, 2024. In relation to these sources of cash, IIL has debt repayment obligations of Rs. 78.25 crore in FY2025 and Rs. 50.71 crore in FY2026 and a capex commitment of Rs.100-120 crore each over the next two years.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a significant diversification in revenues and improvement in the working capital cycle while maintaining the operating margins and sustaining a strong financial risk profile.

Negative factors – The ratings could be revised downwards if there is a considerable decline in the revenues and margins and any adverse regulatory developments related to key molecule - Mancozeb. Moreover, a further elongation of the working capital cycle, or a sizeable debt-funded capex may put pressure on the liquidity position and result in a downward revision of the ratings. A specific credit metric for downgrade includes total debt/OPBDITA of greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Agrochemicals Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has consolidated the financials of the subsidiaries and the JV entity IIL has given a corporate guarantee for the debt of Indobaijin Chemicals Pvt. Ltd (ICPL). For its analysis, ICRA has considered the full consolidation of ICPL into IIL, along with the other subsidiaries as per Annexure II

About the company

Indofil Industries Limited (IIL), incorporated in 1993, is a part of the KK Modi Group. The KK Modi Group has been in the agrochemical business since 1962. It is engaged in the manufacturing and distribution of agrochemicals and specialty and performance chemicals with an extensive distribution network and supply chain serving both large enterprises and individual farmers in over 120 countries.

IIL is present in diverse product segments of the agrochemical industry, including fungicides, insecticides, herbicides and their technical and formulations and operates through its three manufacturing units at Dahej (Gujarat). IIL is among the leading manufacturers of technical grade pesticides in India.

Key financial indicators

Consolidated (ICRA Adjusted*)	FY2023	FY2024
Operating income	3259.0	3260.0
PAT	305.5	397.5
OPBDIT/OI (%)	17.7%	19.2%
PAT/OI (%)	9.4%	12.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	1.0	0.6
Interest coverage (times)	11.7	15.2

*Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore; *Full consolidation of ICPL*

Consolidated (Company reported)	FY2023	FY2024
Operating income	3,049.0	3,069.6
PAT	187.3	273.9
OPBDIT/OI (%)	12.6%	14.6%
PAT/OI (%)	6.1%	8.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	1.5	0.8
Interest coverage (times)	8.3	11.4

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 Available

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)	January 17, 2025	Date	Rating	Date	Rating	Date	Rating
Long term - Working capital - Fund based	Long term	825.00	[ICRA]AA- (Stable)	-	-	-	-	-	-
Long term - Term loan - Fund based	Long term	115.43	[ICRA]AA- (Stable)	-	-	-	-	-	-
Short term – Others – Non-fund based	Short term	228.00	[ICRA]A1+	-	-	-	-	-	-
Long term/Short term - Unallocated	Long term/Short term	959.57	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term – Working capital - Fund based	Simple
Long term – Term loan – Fund based	Simple
Short term - Others - Non-fund based	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	**Long term - Working capital - Fund based**	NA	NA	NA	825.00	[ICRA]AA- (Stable)
NA	**Long term - Fund based - Term loan - 1**	Mar 2017	NA	Mar 2026	42.25	[ICRA]AA- (Stable)
NA	**Long term - Fund based- Term loan – 2**	Mar 2017	NA	Mar 2026	42.25	[ICRA]AA- (Stable)
NA	**Long term - Fund based- Term loan - 3**	Sept 2019	NA	May 2025	30.93	[ICRA]AA- (Stable)
NA	**Short term – Others - Non-fund based**	NA	NA	NA	228.00	[ICRA]A1+
NA	**Long term/Short term – Unallocated**	NA	NA	NA	959.57	[ICRA]AA- (Stable)/[ICRA]A1+

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
Quick Investment (India) Ltd.	100%	Full Consolidation
Good Investment (India) Ltd.	100%	Full Consolidation
Indofil Bangladesh Industries Pvt. Ltd.	100%	Full Consolidation
Indofil –Costa Rica S.A.	100%	Full Consolidation
Indofil Industries (Netherland) B.V.	100%	Full Consolidation
Indofil Industries International B.V.	100%	Full Consolidation
Indofil Industries DO Brazil Ltda	100%	Full Consolidation
Indofil Phillipines, Inc.	100%	Full Consolidation
PT Indofil Industries Indonesia	100%	Full Consolidation
Agrowin Bioscience S.r.l.	96.55%	Full Consolidation
Indocoast International DMCC	100%	Full Consolidation
Indo Baijin Chemicals Pvt. Ltd.	51%	Full Consolidation

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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.

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

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