January 27, 2021

Intech Organics Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Working Capital	11.00	11.00	[ICRA]BBB; reaffirmed, outlook revised to Positive from Stable
Fund Based - Term Loans	14.71	14.71	[ICRA]BBB; reaffirmed, outlook revised to Positive from Stable
Non-fund Based	32.25	32.25	[ICRA]A3+; reaffirmed
Unallocated	1.04	1.04	[ICRA]BBB/A3+; reaffirmed, outlook revised to Positive from Stable
Total	**59.00**	**59.00**	

**Instrument details are provided in Annexure-1*

Rationale

The outlook revision takes into account the healthy improvement in Intech Organics Limited's (IOL) operating income (OI) and operating margins in the current year (FY2021). This improvement is attributable to the increased realisation and sales volume of methyl bromide (MeBr) amid the novel coronavirus (Covid-19) pandemic. The demand is driven by the increasing awareness among clients to use more fumigation services. The Government of India (GoI) has also commenced soil fumigation using MeBr on a trial basis in some parts of Himachal Pradesh, Uttarakhand, and Jammu and Kashmir in FY2021, which will support the revenue visibility going forward. This apart, the company has commenced the commercial production of aluminium phosphide (ALP) in FY2021, which is likely to support the overall revenue growth in the coming years. In the current fiscal, IOL has also hived-off Agrosynth Chemicals Limited (ACL), a loss-making unit it acquired previously. Further, the liquidity of the company has improved on the back of improved performance, as reflected in lower utilisation of fund-based limits as well as increase in cash and bank balances. ICRA's ratings also draw comfort from IOL's established customer base, which results in repeat orders and facilitates additions of new customers from overseas markets. ICRA also positively considers the significant experience of the promoters in fumigation services through the Group company, Pest Kare (India) Private Limited (PKIPL). Further, ICRA factors in the high entry barriers in the industry and favourable demand prospects of MeBr due to the lack of effective alternatives for quarantine and pre-shipment fumigation (QPS) purposes.

However, the ratings are constrained by the changes in raw material prices and adverse exchange rate movement, which led to volatility in margins in the past. Although, IOL has entered into a long-term procurement contract with one of the domestic manufacturer and supplier of bromine to meet significant portion of its bromine requirements. ICRA also continues to consider the working capital-intensive nature of operations as depicted by the high debtors, resulting in higher total debt/OPBDITA to 3.72 times in FY2020 compared to 2.54 times in FY2019. Moreover, its DSCR continued to be at moderate levels due to substantial long-term debt repayments. The demand for the new product—ALP—as well as margins from the same remains to be seen in the near to medium term. Further, the ratings take into account the company's moderate scale of operations due to stiff competition globally. Also, the demand for the company's products remains dependent on the regulatory environment as the use of MeBr is restricted under the Montreal Protocol[1].

The Positive outlook on the [ICRA]BBB rating reflects ICRA's opinion that IOL will continue to report healthy growth in sales turnover and profitability, while maintaining a comfortable financial and liquidity profile.

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*[1] The **Montreal Protocol** is an international treaty designed to protect the ozone layer by phasing out the production of numerous substances believed to be responsible for ozone depletion. The protocol came into force in 1989.*

Key rating drivers and their description

Credit strengths

Significant experience of promoters in fumigation services – Incorporated in 1999, IOL commenced manufacturing MeBr in 2004. The current promoters, Mr. Navanshu Saharan and Mr. Divyanshu Saharan, took over the company in 2007 from the original promoters. IOL also has a Group company, PKIPL, which is promoted by the Saharan family and is involved in the business of fumigation services and trading of fumigants.

High entry barrier and lack of effective alternatives – IOL manufactures MeBr, the use of which is regulated by the Montreal Protocol. As per the treaty, production of MeBr has to be in a very controlled environment and can be used for QPS services only. Hence, it is very difficult for the new entrants in the industry to establish a foothold. The lack of effective alternatives for QPS provides favourable prospects for MeBr. The company also recently got approval to export to the US. However, any change in regulatory policy would be a key monitorable.

Healthy growth in revenues and profitability in FY2021 – IOL's has reported a 48% YoY growth in revenues to ~Rs. 145 crore in 9M FY2021. The company has also reported healthy profitability in the current fiscal on the back increased prices and sales volume.

Comfortable operational and financial profile – IOL's profitability parameters such as operating profit margin, net profit margin and RoCE remained comfortable in the last three to four years. The coverage ratio such as interest cover and DSCR also remained comfortable in FY2020 and are likely to improve in the current year.

Healthy revenue growth in last few years and diversification of product portfolio – IOL recorded a healthy revenue growth in the last few years on account of capacity expansions and additions of new customers in both domestic and overseas markets. The company has commenced production of ALP, which has a healthy demand in the domestic market. The GoI's decision to commence soil fumigation using MeBr is expected to augur well for the company.

Credit challenges

Moderate scale of operations and strong regulatory control –IOL has a moderate scale of operations as it operates in an industry characterised by stringent Government regulations as it deals with a highly toxic product that requires specialised storage and handling infrastructure.

Exposure of profitability to foreign exchange rate volatility and raw material price variation – The key raw material required for manufacturing MeBr is bromine, which constitutes about 80% of the raw material. The company was procuring most of the bromine until FY2020 from Albemarle Europe SPRL (Albemarle), a Belgium-based company. Although, IOL has entered into a long-term procurement contract with one of the domestic manufacturer and supplier of bromine to meet significant portion of its bromine requirements.

Stiff competition from much larger players in global market – IOL faces stiff competition from the larger global players, which limits pricing with only a few other manufacturers in the domestic market and only a few other major manufacturers in the export market.

Liquidity position: Adequate

IOL's liquidity is **adequate** on account of cushion available in the working capital limits and sufficient cash generation of the business to repay of term debt and working capital funding.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a sustained improvement in the sales turnover and profitability margins coupled with efficient working capital management. In terms of specific parameters, the company reporting RoCE more than 15% on a sustained basis will be a positive trigger.

Negative factors – ICRA could downgrade the rating if there is a decline in profitability margins, or if deterioration in the working capital parameters weakens the financial risk profile. Any adverse regulatory changes could also lead to a rating downgrade. In terms of specific parameters, the company reporting total debt/OPBDITA higher than 3 times on a sustained basis will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of IOL and ACL in FY2019 and FY2020; ACL has been disposed-off in the current fiscal

About the company

Incorporated in 1999, IOL commenced 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 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 promoters, Mr. Navanshu Saharan and Mr. Divyanshu 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. PIPL provides services such as vessel on board fumigation, container fumigation, empty shiphold fumigation, bulk/bagged commodity fumigation, and factory/plant fumigation.

Key financial indicators (audited)

LTHL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	139.00	143.87
PAT (Rs. crore)	7.46	7.82
OPBDIT/OI (%)	10.65%	12.02%
RoCE (%)	16.11%	14.83%
Total Outside Liabilities/Tangible Net Worth (times)	1.63x	1.47x
Total Debt/OPBDIT (times)	2.54x	3.72x
Interest Coverage (times)	4.49x	4.50x
DSCR (times)	1.95x	1.72x

Source: Company

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Nov 30, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					January 27, 2021	August 10, 2020	October 25, 2019	August 14, 2018
1	Cash Credit	Long Term	11.00	-	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
2	Term Loans	Long Term	14.71	13.09	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**
3	Letter of Credit	Short Term	32.00	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A3**
4	Bank Guarantee	Short Term	0.25	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A3**
5	Unallocated	Long/ Short Term	1.04	-	**[ICRA]BBB (Positive)/A3+**	**[ICRA]BBB (Stable)/A3+**	**[ICRA]BBB- (Stable)/A3**	**[ICRA]BBB- (Stable)/A3**

Source: Company

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	11.00	[ICRA]BBB (Positive)
NA	Term Loans	April 2018	-	March 2023	14.71	[ICRA]BBB (Positive)
NA	Letter of Credit	-	-	-	32.00	[ICRA]A3+
NA	Bank Guarantee	-	-	-	0.25	[ICRA]A3+
NA	Unallocated	-	-	-	1.04	[ICRA]BBB (Positive)/A3+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	IOL Ownership	Consolidation Approach
Intech Organics Limited	NA	Full consolidation
Agrosynth Chemicals Limited*	100%	Full consolidation

*Source: Company, *disposed-off in FY2021.*

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About ICRA Limited:

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