

December 20, 2022

Neogen Chemicals Limited: [ICRA]A(Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limit – Term loan	254.00	[ICRA]A(Stable); assigned
Long-term fund-based limit – Cash credit	260.00	[ICRA]A(Stable); assigned
Short-term fund/non-fund - based limit – Others	175.00	[ICRA]A2+; assigned
Short-term non-fund based – Other	32.30	[ICRA]A2+; assigned
Long term/ Short term unallocated Limits	3.70	[ICRA]A(Stable)/[ICRA]A2+; assigned
Total	725.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings consider the established track record of Neogen Chemicals Limited (Neogen/company) in bromine and lithium-based specialty chemicals, the experience of the promoters, its R&D capabilities, a diversified product mix with low concentration risk and a diversified customer base comprising reputed companies in the domestic and export markets.

ICRA also considers the healthy financial risk profile of the company, with revenue growth at a CAGR of 32% in the last five years (till FY2022), while profit margins have been healthy with OPM and NPM in the range of 16.5-19.1% and 6.8-9.3%, respectively, during the period. While the company's performance is susceptible to volatility in raw material prices and foreign exchange rates, however due to value added nature of products, the company has been able to pass on the input cost fluctuations to an extent, which mitigates the risk. The capital structure and coverage indicators have also improved, aided by fund raising in FY2022 and improving scale and profitability. ICRA notes that the company is in the midst of further capacity expansion for existing products as well as new product segments with high growth potential. Timely completion of the capex and scaling up of the capacity utilisation are the key monitorables.

The ratings are, however, constrained by moderate but growing scale of operations, high working capital intensity of operations and exposure to changes in regulatory environment.

The Stable outlook reflects ICRA's opinion that the credit profile of the company will remain comfortable in the medium term, aided by expected growth in scale and profitability because of the ongoing capacity expansion and its established presence in the industry. Any new debt-funded capex plan and its impact on the credit profile would remain a key monitorable.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established market position in bromine and lithium compound segment – NCL has a track record of 30 years in manufacturing bromine and lithium-based specialty chemicals, catering to industries like pharmaceuticals, agro-chemicals and engineering chemicals. The promoters are technocrats with extensive experience in the chemical industry.

Diverse product portfolio and R&D capabilities – The company has in-house R&D capabilities for new products/process development and its R&D spend as a percentage of the operating income has increased to 1.0% from 0.6% in the last five years. This has helped the company to have a diversified product profile, although they are bromine and lithium-based derivatives. In terms of end-user industry concentration, the pharma sector accounts for 55-50% of sales, followed by agrochemicals at ~25%, while the remaining sales are driven by other industries. However, the customer concentration remains moderate, with the top 5 customers accounting for 27-32% of the sales in the last few years.

In recent years, the company has incurred capex to add capacities, including a new plant in Dahej, where additional expansion is currently underway. This will enable the company to add new products in existing end-user industry segments as well as new segments like lithium-ion battery manufacturers, with high growth potential. A timely completion of the project and scaling up of operations will be the key monitorables. The company has also been increasing its custom synthesis manufacturing business in recent years and the segment is expected to grow, going forward, providing diversification benefits.

Healthy financial risk profile – The company has a healthy financial risk profile, with revenue growth at a CAGR of 32% in the last five years (till FY2022), while profit margins have been healthy with OPM and NPM in the range of 16.5-19.1% and 6.8-9.3% during the period. The capital structure and coverage indicators have also improved, aided by fund raising in FY2022 and improving scale and profitability. The company had gearing of 0.6 times as on March 31, 2022, while the TD/OPBDITA and interest cover was 2.8 times and 4.5 times, respectively, in FY2022.

Credit challenges

High working capital intensity – The company's operations are working capital intensive with NWC/OI in the range of 50-60% in the last five years. The elevated working capital intensity is due to the high inventory requirements given the large number of products with multiple stages of processing. The company may also maintain high raw material inventory for certain products, which may have high volatility or availability issues. The company is trying to moderate its working capital intensity and the developments will be monitored.

Exposure to foreign exchange and raw material price volatility - NCL derives around 45% of its revenue from exports and is hence exposed to volatility in foreign exchange rates. However, the risk is mitigated to some extent by imports providing a natural hedge. NCL's operating profitability also remains susceptible to volatility in key raw material prices. However, due to the value-added nature of the products, the company has been able to pass on the input cost fluctuations to an extent, which mitigates the risk. The company also has established relationship with suppliers which mitigates the availability risk to some extent.

Environmental and social risks

Neogen, being a chemical company, require various statutory and regulatory permits, licences and approvals to carry out its operations, including environmental clearances and consents. Many of these approvals are granted for a limited duration and must be periodically renewed. They can even be revoked in the event of non-compliance and also lead to penalties and incarceration. Further, bromine being a hazardous product, needs specialised handling and safety measures. However, as per the disclosures in the annual report for FY2022, Neogen has focused on compliance with EHS (environment, health, and safety) standards. This is validated through the ISO certifications that Neogen holds. Further, the Dahej plant is GMP (good manufacturing practices) certified. The facility successfully operates a zero liquid discharge system.

The company's exposure to social risks mainly pertain to safe operations and remaining compliant with all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. As per the disclosures, the company has safety equipment in place at its units and follows employee safety norms with stringent

standards.

ICRA does not expect the environmental and social risks to have any major impact on the company's credit profile in the near to medium term.

Liquidity position: Adequate

NCL's liquidity is expected to remain adequate, supported by expected cash accruals in the range of Rs. 60-65 crore in FY2023 against a repayment obligation of Rs. ~35 crore in FY2023 and a capex of Rs. 150 crore spread over FY2023 and FY2024. The liquidity is also supported by unutilised working capital limits of ~Rs. 295 crore (average utilisation of 65% in 12 months ended Sept'22) and cash and investments of ~Rs. 126 crore as on March 31, 2022 (Rs ~44 crore as on September 30, 2022).

Rating sensitivities

Positive factors – ICRA could upgrade NCL's ratings if the company demonstrates a sustained improvement in revenue, backed by contribution from value-added product while maintaining/improving profitability and an improvement in working capital intensity leading to better credit metrics.

Negative factors – Pressure may arise if the company undertakes a sizeable debt-funded capital expenditure, or if a stretch in the working capital intensity puts pressure on its liquidity profile. A specific credit metric that may lead to negative pressure on rating is OPBDITA/interest of less than 4.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of NCL. The details of the entities consolidated are in Annexure II

About the company

Neogen Chemicals Ltd. is an over 30-year-old company specialising in bromine-based compounds, Grignard reagents and inorganic lithium salts. The company was founded by Mr. Haridas Kanani, a chemical engineer from the Indian Institute of Technology (IIT), Mumbai. At present, Dr Harin Kanani, who also is a chemical engineer from IIT, Mumbai, and a PHD holder, runs the day-to-day operations of the company.

Over the years, Neogen has developed several bromine-based intermediates and is a leading manufacturer of these products. Its specialty chemicals are used in pharmaceutical, agro-chemicals, engineering chemicals, electronic chemicals, construction chemicals, aroma chemicals, flavours and fragrances, and other industries with new upcoming usage in lithium-ion battery materials for energy storage and EV application. The company serves across 29 countries (USA, Europe, Japan and Middle East). It has over three decades of supply and quality reliability track record with leading companies.

At present, it has three plants in Mahape, Vadodara and Dahej with a combined capacity of 2,400 MTPA for inorganic chemicals and 407 kilolitres of reactor capacity for manufacturing organic chemicals as of FY2022-end. After completing the ongoing capex, Neogen would have 467 kilolitres and 4,000 MTPA (including 400 MTPA for specialty lithium salts) of organic and inorganic capacity.

Key financial indicators (audited)

NCL	FY2021	FY2022
Operating income	336	487
PAT	31.0	44.5
OPBDIT/OI	19.1%	17.8%
PAT/OI	9.2%	9.1%
Total outside liabilities/Tangible net worth (times)	1.8	0.9
Total debt/OPBDIT (times)	3.6	2.8
Interest coverage (times)	4.7	4.5

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 applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding As on Mar 31, 22 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2019	Date & rating in FY2018
				Dec 20, 2022	-	-	-
1 Long-term fund-based limit – Term loan	Long term	254.00	127.71	[ICRA]A(Stable)	-	-	-
2 Long-term fund-based limit – Cash credit	Long term	260.00	-	[ICRA]A(Stable)	-	-	-
3 Short-term fund/non-fund - based limit – Others	Short term	175.00	-	[ICRA]A2+	-	-	-
4 Short-term non-fund based – Other	Short term	32.30	-	[ICRA]A2+	-	-	-
5 Long term/ Short term unallocated Limits	Long term/ Short term	3.70	-	[ICRA]A(Stable) / [ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limit – Term loan	Simple

Long-term fund-based limit – Cash credit	Simple
Short-term fund/non-fund - based limit – Others	Simple
Short-term non-fund based – Other	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 limit – Term loan	NA*	NA	FY26 - FY28	254.00	[ICRA]A(Stable)
NA	Long-term fund-based limit – Cash credit	NA	NA	NA	260.00	[ICRA]A(Stable)
NA	Short-term fund/non-fund - based limit – Others	NA	NA	NA	175.00	[ICRA]A2+
NA	Short-term non-fund based – Other	NA	NA	NA	32.30	[ICRA]A2+
NA	Long term/ Short term unallocated Limits	NA	NA	NA	3.70	[ICRA]A(Stable)/[ICRA]A2+

Source: Company; *not available

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Firm	Ownership	Consolidation Approach
Dhara Fine Chem Industries	90%	Equity Method

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About ICRA Limited:

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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.

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