July 24, 2023

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 fund-based – Term loan	42.48	32.99	[ICRA]BBB+ (Stable); reaffirmed
Long-term fund based working capital	67.50	97.50	[ICRA]BBB+ (Stable); reaffirmed/assigned
Short term – Non-fund based - Others	32.25	32.25	[ICRA]A2; reaffirmed
Long term/Short term - Unallocated	17.77	27.26	[ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed/assigned
Total	**160.00**	**190.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes into account the sustained growth in Intech Organics Limited's (IOL) operating income (OI) and expansion in operating margins in FY2023, driven by improved realisation and steady demand for methyl bromide (MeBr), both in the domestic and export markets. The volume growth is expected to continue as the demand remains buoyant with increasing awareness for fumigation, resulting in healthy profit generation. IOL also ramped up the commercial production of aluminium phosphide (ALP) in FY2023, which is likely to support the overall revenue growth going forward and reduce its dependence on MeBr, especially given the restrictive use of the chemical and its ozone-depleting characteristics.

The ratings also take into account the healthy financial risk profile of the company, reflected in the comfortable leverage and coverage indicators. The leverage and coverage indicators are likely to moderate if the company goes ahead with its bromine-related capex in the absence of equity infusion. The ratings also draw comfort from the significant experience of its promoters in fumigation services through Group company, Pest Kare (India) Private Limited (PKIPL), which has resulted in an established customer base, leading to repeat orders. Further, ICRA factors in the high entry barriers in the industry and the 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 vulnerability of profitability to changes in raw material prices and the adverse exchange rate movement. ICRA also continues to consider the stringent regulations around 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.

Moreover, ICRA notes that the company is embarking on a sizeable capex of around Rs. 533 crore over the next two years to set up a bromine manufacturing capacity in Rann of Kutch under its 100% subsidiary, Intech Brinechem Limited. This capex is sizeable vis-à-vis IOL's existing asset base and exposes it to project execution risks. Further, while ICRA expects some part of the funding to be tied up via equity infusion in IOL before major project capex starts, the debt metrics of IOL and IBL consolidated will still deteriorate during the construction period. Further, the project remains exposed to risks related to the stabilisation and ramping up of scale. Moreover, while there have been no firm offtake agreements for bromine sales, there exists a global shortage in bromine supply, thereby easing marketing risks. Further, once the bromine projects start commercial operations from FY2025, the profit generation is expected to be healthy at the current prices of bromine, resulting in an improvement in the coverage and leverage metrics.

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.

Key rating drivers and their description

Credit strengths

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

High entry barriers 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 must be carried out in a very controlled environment and the product can be used for QPS services only. Hence, it is very difficult for new entrants in the industry to establish a foothold. The lack of effective alternatives for QPS provides favourable prospects for MeBr. However, any change in the regulatory policy would be a key monitorable.

Healthy revenue growth in last few years and diversification of product portfolio – IOL has consistently increased its revenue growth in the last few years. There has been a huge surge in prices of MeBr on account of healthy demand with the advent of the pandemic as the European and the US want their shipments to be fumigated before shipping.

Healthy leverage and coverage metrics, supported by consistently increasing scale of operations with healthy profitability – IOL's cash accruals have remained healthy because of its consistently increasing scale of operations and healthy profitability metrics, which have led to healthy leverage. Its gearing and TOL/TNW stood at 0.8 times and 1.0 times, respectively, as on March 31, 2023. IOL's coverage indicators, such as interest coverage and DSCR, are also healthy at 8.0 times and 4.1 times, respectively, as on March 31, 2023. However, with the sizeable capex planned for the bromine facility, the coverage metrics for IOL and IBL consolidated are likely to moderate, especially during the construction period.

Credit challenges

Sizeable debt-funded capex for bromine manufacturing facility, under its 100% subsidiary – IOL, under its 100% subsidiary Intech Brinechem Limited (IBL), is setting up a Rs. 533-crore bromine manufacturing unit in Rann of Kutch. This project is proposed to be funded by an equity of Rs. 166 crore from IOL and the balance through debt on IBL's books. IOL proposes to fund its equity contribution with fresh equity infusion from some investors. The project could impact the company's financial position during the initial years till commercial production starts. There could be stress on the consolidated net cash accruals, profitability ratios and gearing ratios in the initial few years of the project.

Bromine project subject to execution and marketing risks for product offtake – The project is subject to execution risks and stabilisation issues, given the size of the capex. There is significant risk associated with the completion of the project on time and customer acquisition, especially because the product profile is relatively new vis-à-vis its existing product profile.

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 venture into new products, further diversification of the 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. The company was procuring most of the bromine until FY2020 from Albemarle Europe SPRL (Albemarle), a Belgium-based company. However, IOL has entered into a long-term procurement contract with one of the domestic manufacturers and suppliers of bromine to meet a significant portion of its bromine requirements.

Liquidity position: Adequate

The liquidity position of IOL is adequate with cushion available in its working capital limits and sufficient cash generation from its business to repay its term debt and working capital funding.

Rating sensitivities

Positive factors – ICRA could upgrade IOL's ratings on the successful commissioning and ramping up of the bromine project on time without major cost overruns. Further, the ability of the company to alleviate marketing risks for this project along with a sustained improvement in the sales turnover and profitability margins and 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 can lead to a rating revision. Any adverse regulatory changes could also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated; To arrive at the ratings, ICRA has considered the consolidated financials of IOL, with its 100% subsidiary IBL which will undertake a capex over the next two years

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 (audited)

IOL Standalone	FY2021	FY2022	FY2023*
Operating income	214.3	304.8	311.7
PAT	24.7	51.3	53.5
OPBDIT/OI	18.4%	25.5%	26.7%
PAT/OI	11.5%	16.8%	17.2%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	1.0
Total debt/OPBDIT (times)	1.5	1.3	1.8
Interest coverage (times)	10.5	13.4	8.0

*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

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jul 24, 2023	May 05, 2022	Jun 02, 2021	Jan 27, 2021	Aug 10, 2020
1	Long-term fund-based – Term loan	Long term	32.99	26.61	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
2	Long-term fund based – Cash credit	Long term	97.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
3	Short term – Non-fund based - Others	short term	32.25	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4	Long term/Short term - Unallocated	Long term and short term	27.26	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+

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	8% pa	FY2025	32.99	[ICRA]BBB+ (Stable)
NA	**Cash credit**	NA	NA	NA	97.50	[ICRA]BBB+ (Stable)
NA	**Non-fund based limits**	NA	NA	NA	32.25	[ICRA]A2
NA	**Unallocated**	NA	NA	NA	27.26	[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

Source: Company data

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