October 30, 2024

Indogulf Cropsciences Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	107.00	128.00	[ICRA]BBB+ (Stable); reaffirmed
Short term – Fund-based limits	41.00	-	-
Short term – Non-fund based – Letter of credit	49.00	69.00	[ICRA] A2; reaffirmed
Total	**197.00**	**197.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in the established position of Indogulf Cropsciences Limited (ICL) in agrochemicals and the extensive experience of the promoters in the industry. The ratings also take into account a diversified product portfolio, comprising crop nutrients, plant nutrients and biologicals. ICRA also notes that ICL is backward integrated into the manufacturing of technical, which is expected to provide raw material security as well as expand the contribution levels. The operating margins have improved over the years, leading to comfortable cash flow generation. Further, ICRA expects the company to report a healthy growth in turnover in FY2025, with steady operating margins.

The company's scale of operations has remained range-bound in the past. While the top line of FY2024 remained similar to FY2023, growth is expected in FY025 and thereafter as the new plant in Sonipat gets commenced in December 2024. The credit profile remains comfortable, evident from its healthy capital structure (gearing of 0.7 times as on March 31, 2024) and adequate debt coverage metrics (interest cover of more than 4 times and debt/OPBDITA of 2.7 times for FY2024).

ICRA also notes that the company has filed for a draft red herring prospectus for an initial public offering. ICRA expects the credit profile of ICL to improve post the IPO, which is expected towards the fag end of the current fiscal or the start of the next fiscal. With the infusion of Rs. 200 crore, the company's debt profile is expected to improve materially, leading to a substantial improvement in the capital structure and lowering of the interest cost, translating into improved coverage indicators as well. Thus, ICRA will continue to monitor the developments in this regard and take a rating action as the events unfold.

However, the ratings are constrained by the elongated working capital intensity of the business, necessitating reliance on external borrowings. The receivables and inventory levels have remained elevated, which is likely to remain the same, going forward. The ratings also factor in the intense competition in the industry that limits the pricing flexibility of industry participants, including Indogulf, and the susceptibility of operations to any adverse regulatory development related to manufacturing/sales of agrochemicals or any discontinuation of tie-ups with international technical manufacturers. Moreover, the company'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.

The Stable outlook on the rating reflects ICRA's expectation that the company's credit profile will remain steady, driven by comfortable cash generation, despite the elevated working capital cycle.

Key rating drivers and their description

Credit strengths

Strong track record of operations, sizeable scale of operations, established brand name – The company has an established operational track record, and its promoters have extensive experience of more than four decades in the agrochemical industry. The Group started operations in 1954 and is being promoted by the Agarwal family. The promotor had five sons, who were given different companies each. Insecticides India Limited, HPM Chemicals and Fertilizers Limited, Ichiban Crop Science Limited and Crystal Crop Protection Limited are the rest of the group companies.

Well-diversified product portfolio and geographical presence – The company has a well-diversified portfolio across products segment such as insecticides and herbicides as well as across crops. It also has a well-entrenched distribution network covering the entire country. As a result, the company's performance is largely protected against the poor performance of a particular crop or a region.

Comfortable financial profile – The company's financial risk profile remains comfortable, characterised by healthy cash generation. The capitalisation and coverage metrics have remained adequate with gearing levels of 0.7 times in FY2024. The interest coverage remained comfortable at 4.6 times in FY2024. These metrics are expected to witness a material improvement post the successful completion of the proposed IPO.

Expected benefits of backward integration from FY2025; project execution risks remain – The company has set up a formulation manufacturing plant at Sonipat, with a total capital outlay of Rs. 55 crore which is likely to commence its operation in December 2024. The plant will provide an additional stream of revenue. Thus, ICRA expects the company to start deriving the benefit of backward integration and the new formulation plant from FY2026.

Credit challenges

Highly competitive intensity limits pricing flexibility – The intensely competitive and fragmented agro-chemical industry exerts pricing pressure and necessitates constant marketing and branding expenditure. Nevertheless, the company benefits to an extent because of the experience of the promoter for more than four decades.

Operations vulnerable to varying agro climatic conditions and regulatory risks – The company's sales and profitability remain susceptible to agro-climatic conditions, development of pest-resistant genetically modified (GM) seeds and the regulatory risks inherent in the business. This is also demonstrated by the moderation in revenue growth and contraction in margins in the previous years due to sub-par monsoons. The Government of India (GoI) had issued a draft order for banning the use of 27 pesticides after consultation with the Central Insecticides Board and Registration Committee (CIBRC/Registration Committee). While the order is being reassessed following the representations by industry participants, the imposition of the ban can adversely impact the industry participants, including ICL.

Exposure to raw material price and foreign exchange volatility - Lack of backward integration into technical manufacturing and dependence on imports for 25-30% of its raw material requirement exposes the company's profit margins to the volatility in raw material prices and foreign exchange rates.

High working capital intensity - The company needs to maintain high raw material and finished goods inventory, given the seasonality inherent in demand, a diverse product portfolio, dependence on imports for raw materials and a wide distribution network across the country. This has continued to result in high working capital intensity.

Liquidity position: Adequate

The company's liquidity position is adequate on the back of comfortable internal accrual generation, low debt repayment liability and cushion in working capital limits. Going forward, despite an elevated working capital intensity, the liquidity position is expected to remain comfortable on the back of healthy cash generation.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company demonstrates a significant growth in revenue, accompanied by healthy cash generation with moderation in the working capital intensity and limited reliance on debt.

Negative factors – The ratings could be revised downwards if there is a considerable decline in revenue, or if there is pressure on the profit margins. Moreover, a further elongation in 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Agrochemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ICL; as on March 31, 2024, the company had one subsidiary (enlisted in Annexure-II)

About the company

ICL was incorporated in 1993. Indogulf Cropsciences Limited (formerly known as Jai Shree Rasayan Udyog Ltd) is a manufacturer and exporter of agrochemicals, including crop nutrients, technical and formulations and other pesticides, in India. It has a distribution network that covers the domestic market and exports to Asia, Africa, Latin America and West Asia. Its product basket includes micronutrients, pesticides, fertilisers, insecticides, fungicides, herbicides and plant growth regulators. It has four manufacturing units, one technical unit and two formulation plants in Haryana and one formulation plant in Jammu. ICL is promoted by Mr. Om Prakash Aggarwal & other family members.

Key financial indicators (audited)

ICL -Consolidated	FY2023	FY2024
Operating income	569.9	573.9
PAT	23.0	28.7
OPBDIT/OI	9.0%	10.0%
PAT/OI	4.0%	5.0%
Total outside liabilities/Tangible net worth (times)	1.5	1.3
Total debt/OPBDIT (times)	3.7	2.7
Interest coverage (times)	4.6	4.6

Source: Company, ICRA Research; 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: NA

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				Oct 30,2024	July 11, 2023	May 18,2023	-	-
1	Fund-based – Term loan	Long term	-		-	[ICRA] BBB+ (Stable)	-	-
2	Fund based – Cash credit	Long term	128.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+(Stable)	-	-	-
3	Fund-based limits	Short term	-	-	[ICRA]A2	-	-	-
4	Non-fund based – Letter of credit	Short term	69.00	[ICRA]A2	[ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Short term – Non-fund based – Letter of credit	Very 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	Fund based – Cash credit	NA	NA	NA	128.00	[ICRA]BBB+(Stable)
NA	Non-fund based – Letter of credit	NA	NA	NA	69.00	[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	ICL Ownership	Consolidation Approach
Abhiprakash Globus Private Limited	100.00%	Full Consolidation
Indogulf Cropsciences Australia PTY Limited	100.00%	Full Consolidation

Source: Company

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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.

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