

Parijat Industries (India) Private Limited

March 23, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	80.00	105.00	[ICRA]BBB(Stable)/A2; reaffirmed
Non-fund based limits	60.00	45.00	[ICRA]BBB(Stable)/A2; reaffirmed
Unallocated	10.00	0.00	[ICRA]BBB(Stable)/A2; reaffirmed
Total	150.00	150.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) and short-term rating of [ICRA]A2 (pronounced ICRA A two) assigned to the Rs. 105.00-crore fund-based facilities and Rs. 45.0-crore of non-fund based facilities of Parijat Industries (India) Private Limited (PIPL)¹. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation factors in the company's comfortable liquidity position and healthy debt-coverage indicators supported by capital infusion in FY2017. The ratings continue to positively factor in the extensive experience of the promoters in the agrochemical industry, its growing brand presence, widening product portfolio [9(3)² product launches] and established distribution network. PIPL's revenues are also diversified across geographies as well as various segments such as retail, institutional, export and merchanting, which limit concentration risks.

However, the ratings are constrained by the moderate scale of operations of the company, absence of backward integration and consequent dependence on Chinese players for raw material supply. These apart, adverse regulatory changes in the industry and demonetisation during the company's peak collection period impacted its operating profits in FY2017. Further, the company faced challenges with respect to GST implementation and volatile prices in the current year as well. The company remains exposed to variability in agro-climatic conditions, and development of genetically-modified seeds. The ratings also factor in the high working-capital intensity of the business due to high inventory and debtor levels and the strong industry competition, which limits the pricing flexibility of the industry participants including PIPL. ICRA notes that PIPL has acquired an in-operational technical plant, which will help in backward integration while limiting the raw material price risk. The capex and funding towards the same and the associated impact will be a rating monitorable.

Going forward, PIPL's ability to improve its revenue growth and profitability amid raw material price volatility and high competition would be the key rating sensitivities. Furthermore, PIPL's ability to backward integrate with timely start of the technical plant and manage the working-capital requirements will be key rating monitorables.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 9(3) registration: A firm that is introducing a molecule which is being manufactured or imported for the first time in India needs to obtain registration for the molecule under Section 9(3) of the Insecticides Act 1968.

Rating Outlook: Stable

ICRA believes that PIPL will continue to benefit from the extensive experience of its promoters, its wide distribution network and the conservative capital structure. The outlook may be revised to Positive if substantial growth in revenue and profitability, and timely backward integration further strengthen the company's financial and operational risk profile. The outlook may be revised to Negative if any regulatory changes adversely impact the company, cash accrual is lower than expected, or if any major debt-funded capital expenditure, or stretch in the working-capital cycle weakens liquidity or scale and profits decrease due to intense competition.

Key rating drivers:

Credit strengths

Higher contribution from high value 9(3) products to drive current-year revenue amid adverse market conditions – The company has been able to generate healthy revenue and improved margins in the current year, which can be attributed to the better penetration of its 9(3) products as well as its ability to manage supply-side constraints by stocking surplus inventory. This was possible despite the challenges posed by the GST implementation, an average monsoon and the volatile raw material prices. The prices were affected as many raw material factories shut shop in China (referred to as the Chinese shutdown) in addition to the costlier crude oil prices.

Revenue diversified across various segments limits seasonality, geographical and client risks – The customer-concentration risk is low for PIPL as the sales are diversified across export, retail, institutional and merchanting business segments with more than 4,000 active dealers in the retail market. The sales of the company are well distributed across the year and across globe, which limits seasonality and geographical risk respectively.

Comfortable liquidity position and healthy coverage with infusion of PE funds – The liquidity position of the company significantly improved post infusion of Rs. 50.0 crore by Rabo Bank in June 2016. With reduced utilisation of bank debt, PIPL's debt-coverage metrics remained healthy even though profits declined in FY2017 (interest coverage of 3.0 times, DSCR of 1.5 times and NCA/Total Debt of 19.4%). Apart from reducing working-capital debt, the company has utilised part of these funds towards product registrations and purchase of technical plant. The company, however, has slowed down its expansion plans.

Experienced promoters with over two decades of experience in the agrochemical industry – PIPL's operations are promoted by the Anand family, with both the first and second generations actively involved in the day-to-day management of the company. PIPL was formed in 1995 and has successful brands like Mortel, Daita, Victor-80, Supranil etc.

Credit challenges

Dependence on Chinese suppliers for raw material in absence of backward integration – PIPL is a moderate-sized formulator of agrochemicals and is not backward integrated into the manufacture of the active ingredient, i.e. technicals. PIPL imports more than 40% of its raw material (technical) and has arrangement with various Chinese suppliers. The Chinese shut down in Q4 FY2017 due to environmental pollution controls and adverse regulations by the Indian government for import of technicals resulted in a sudden spike in raw material prices. The company's inability to pass on the increase to its customers and its high dependence on Chinese players adversely impacted the profitability of PIPL. However, the company has acquired an inoperational technical plant, which will aid in backward integration and also mitigate the supply side constraints for the company to some extent. The plant is expected to be operational in H2 FY2019 post receipt of key approvals.

Decline in profitability due to demonetisation, high competition and Chinese shut downs – The company reported a moderate growth of 10% in FY2017, lower than expectations. Further, the profitability (OPBDITA/OI) declined sharply from 9.1% in FY2016 to 5.4% in FY2017. The decline can be attributed to the delayed receivables due to demonetisation in Q3 FY2017, increase in raw material prices due to Chinese shutdown in Q4 FY2017 and the inability of the company to pass on the price increase to its customers. Further, ICRA notes that the company strengthened its debtor provisioning policy and reclassified rebates offered among other such initiatives that impacted the year’s profits. The regulatory risks apart, the company continues to face intense competition from other organised and unorganised players in the agro-chemical industry as well as faces agro-climactic risks as is prevalent in this industry.

Working-capital intensive nature of business largely on account of credit required to be extended – PIPL’s working-capital cycle has remained long owing to long credit period extended to retail dealers as well as to institutional clients. Stiff competition and demonetisation in Q3 FY2017 resulted in slower realisation. Inventory days of the company have increased owing to stock up for material availability amid supply-side constraints. However, the company receives credit from its suppliers. Nevertheless, the company’s liquidity position has remained comfortable in the backdrop of moderate growth and cautious expansion approach.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Agrochemical Industry](#)

[Framework for Liquidity Analysis in Corporate Ratings](#)

About the company

Incorporated in 1995, PIPL manufactures and sells agrochemicals and has two manufacturing units in Ambala (Haryana). The company is primarily a formulator and sources the active ingredient (i.e. technicals) externally. The company has a presence in both the domestic and export markets (75:25 mix) and sells both under its own brand as well as under bulk sales. PIPL is promoted by the Anand family, which has extensive experience in the agrochemical business. It. Prior to this, the promoters were engaged in the trading of agrochemicals for close to two decades. Private Equity (PE) investor – India Agri Business Fund II (sponsored by Rabo Bank) – has invested Rs. 50.0 crore in the company in FY2017 with 9.90% of equity stake.

In FY2017, the firm reported a net profit of Rs. 9.79 crore on an operating income (OI) of Rs. 354.09 crore compared with a net profit of Rs. 11.04 crore on an OI of Rs. 319.20 crore in the previous year. On a provisional basis, the company has reported an OI of Rs. 236.0 crore in H1 FY2018.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	319.20	354.09
PAT (Rs. crore)	11.04	9.79
OPBDIT/OI (%)	9.10%	5.42%
RoCE (%)	23.32%	13.76%
Total Debt/TNW (times)	1.17	0.44
Total Debt/OPBDIT (times)	2.64	2.89
Interest Coverage (times)	2.80	3.03
NWC/OI (%)	26.2%	26.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating March 2018	Date & Rating in FY2017 January 2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Cash Credit	60.00		[ICRA]BBB (Stable)/A2	[ICRA]BBB (Stable)/A2	-	[ICRA]BBB-(Stable)/A3^
2	WCDL	5.00		[ICRA]BBB (Stable)/A2	[ICRA]BBB (Stable)/A2	-	[ICRA]BBB-(Stable)/A3^
3	PCFC	40.00		[ICRA]BBB (Stable)/A2	[ICRA]BBB (Stable)/A2	-	[ICRA]BBB-(Stable)/A3^
4	LC	45.00		[ICRA]BBB (Stable)/A2	[ICRA]BBB (Stable)/A2	-	[ICRA]BBB-(Stable)/A3^
5	Unallocated	0.00		-	[ICRA]BBB (Stable)/A2	-	[ICRA]BBB-(Stable)/A3^

^suspended

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 www.icra.in

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	NA	NA	NA	60.00	[ICRA]BBB(Stable)/A2
NA	WCDL	NA	NA	NA	5.00	[ICRA]BBB(Stable)/A2
NA	PCFC	NA	NA	NA	40.00	[ICRA]BBB(Stable)/A2
NA	LC	NA	NA	NA	45.00	[ICRA]BBB(Stable)/A2

Source: PIPL

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