Agrocel Industries Private Limited

March 28, 2019

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based - Cash Credit	7.00	72.00	[ICRA]A+(Stable); reaffirmed
Fund-based - Term Loan	-	145.00	[ICRA]A+(Stable); reaffirmed
Non-fund Based Limits	2.75	27.00	[ICRA]A1; reaffirmed
Unallocated Limits	9.10	-	-
Total	**18.85**	**244.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in the acquisition of Solaris Chemtech Industries Limited (Solaris) by Agrocel Industries Private Limited (Agrocel). In December 2018, Agrocel acquired a 100% stake in Solaris at an enterprise value of over Rs. 760 crore. The acquisition was funded through debt of ~Rs. 145 crore at the Agrocel level, debt of Rs. 570 crore in Solaris and remaining through subordinated promoter loan and Agrocel's internal accruals. The sizeable incremental debt increased Agrocel's leverage position, as its consolidated leverage (net debt to EBIDTA (earnings before interest, depreciation, tax and amortisation)) ratio rose to ~2 times. While ICRA notes the sizeable valuation of the acquisition, given the expectation of strong cash flow generation by Agrocel and Solaris and the favourable repayment terms on the acquisition debt, the coverage indicators and the liquidity profile would remain comfortable.

ICRA believes that the acquisition is a long-term positive for Agrocel as the combined business will provide significant synergies. Solaris also manufactures bromine and bromine-based speciality chemicals and has the second largest market share in India after Agrocel. Thus, the acquisition will further enhance Agrocel's market position and make it a significant player in the bromine industry, globally. Further, with low debt obligation in its existing business and limited capital expenditure (capex) requirement, the consolidated cash flow will be utilised towards debt reduction. This would be supported by an expected ramp-up in the operating cash flow, driven by increased volumes and significant improvement in realisations, along with expected synergies from the acquisition. ICRA expects the consolidated net debt to EBIDTA ratio to subsequently moderate to below 1.25 times over the next three years. However, any delay in this deleveraging will be a key rating sensitivity factor.

For arriving at the ratings, ICRA has combined the business and financial risk profiles of Agrocel and Solaris. The ratings continue to consider Agrocel's healthy financial risk profile (despite increase in its debt levels), with healthy profitability and cash accruals. It consistently achieves growth in its operating income (OI) on the back of increased capacity and healthy demand, driven by growing exports. Further, the liquidity profile remains healthy with access to unutilised working capital limits. The ratings also reflect Agrocel's competitive advantage on account of its distinctive location at the natural terrain of the Great Rann of Kutch in Gujarat, which entails longer gestation periods and acts as an entry barrier for newer players. The ratings further consider the abundant access to the key raw material (sea bittern) at the Great Rann of Kutch and the technically competent and experienced key managerial personnel. The ratings also favourably consider Agrocel and Solaris' diversified revenue mix and strong customer base.

However, the ratings are constrained by the weak performance of the company's agro-service division in the last few fiscals, though the contribution of agro-service division to the total revenue and profitability remains limited. The ratings further note the climatic risks associated with both its divisions (marine chemical and agro-service) and the dependence on capacity utilisation of its chemical plant on the bromine concentration of sea bittern, which can be erratic in different seasons. The ratings are also constrained due to the cyclicality associated with its chemical business as well as agro-service business, which deals in premium products.

Outlook: Stable

ICRA expects Agrocel's sales to continue to grow moderately after a healthy improvement in FY2019, supported by the growing demand from export customers and the recent acquisition of Solaris. The outlook may be revised to Positive if there is a material improvement in the scale of operations, while maintaining strong profitability and attaining significantly higher-than-expected reduction in the debt levels. The outlook may be revised to Negative if there is a lower-than-expected ramp-up in cash accrual, because of non-sustenance of the current performance or issues faced in integration of the acquired entity. A higher-than-expected increase in debt, most likely due to any other acquisition or substantial capex, may also result in a Negative outlook.

Key rating drivers

Credit strengths

Long track record of promoters in chemical segment - Agrocel is a part of the Excel Group of companies, promoted by the Shroff family. The Group companies include Excel Industries Limited and Transpek Industry Limited, among others. Besides their experience in the agrochemical and speciality chemical business spanning over five decades, the promoters have close to two decades of experience in the bromine and bromine derivatives segment.

Healthy market position in bromine industry - Agrocel has an established market position in the Indian bromine industry and with the acquisition of Solaris, the combined entity would have a significant market share. Further, bromine has a positive demand outlook due to its increased applications and improving realisations in domestic and global markets. As a result, the company's competitive position would improve over the medium term.

Distinctive location limits competition and ensures raw material availability - The bromine plants of Agrocel and Solaris are located in the Great Rann of Kutch. The unique infrastructure of the region, coupled with the presence of the Indian Armed Forces, increases the number of approvals and the gestation period required for any new business in the vicinity. This acts as an entry barrier for the new players, resulting in a low competitive intensity. Additionally, a key advantage of the location is the unlimited access to the company's key raw material, sea bittern.

Reputed customer base; diversified revenue stream - Agrocel has an established customer base in both domestic and export markets. The major customers for bromine are the large agrochemical companies in India. Among the bromine-based speciality chemicals, the major product is Hydrobromic Acid, for which the main customers include pharmaceutical entities, large oil and gas exploration companies and drilling service providers, among others. The company, thus, also has a diversified revenue stream of bromine and bromine-based speciality chemicals.

Healthy profitability and cash accruals - Agrocel's OI witnessed a healthy growth of 18% in FY2018 on account of an increase in volumes, coupled with higher sales realisations. Further, it reported revenues of Rs. 365 crore in 9M FY2019. The operating margins witnessed a sustained improvement to 39.8% in FY2018 from 16.42% in FY2012. Moreover, with the acquisition of Solaris, the consolidated revenues would increase significantly in FY2019 and FY2020, while the operating margins would remain healthy in the range of 40-45% over the medium term. With healthy profitability, the cash accruals remained strong and are expected to improve further with the increase in scale and profitability. Hence, the coverage indicators would also remain comfortable (interest coverage of over 5 times and NCA/Debt of over 30%) over next three years, despite significant increase in the debt levels.

Credit challenges

Operations vulnerable to climatic risks - The company's agro-service division deals in agri-products, the availability of which is exposed to the risks associated with climatic conditions (with monsoons and/or heat waves playing a significant role in production). However, the risk is mitigated to a certain extent with the geographical diversification of operations, with Agrocel's service centres and raw material sourcing spread across the country. For the marine chemical division, climatic and event risks pose a more serious threat as the Kutch region witnessed a number of natural disasters and is prone to extreme climatic conditions. Natural disasters or even excess rainfall can severely disrupt the company's operations by affecting sea bittern.

Weak performance of agro-service division - The company continues its various initiatives for organic agriculture under its agro-service division. It aims at optimum and sustainable use of local natural resources for production without the application of external inputs. The segment has remained a loss-making division for the company, with its operating losses dragging down the overall profitability to some extent.

Significant increase in debt due to acquisition - Agrocel's financial risk profile weighs down by its increased debt levels (by Rs. 750 crore) in FY2019 on account of the acquisition of Solaris at an enterprise value of Rs. 760 crore. While the leverage (Net debt/EBIDTA) ratio was 0.1 times in FY2018, it would increase to ~2.0 times in FY2019. The operational cash flows from the existing businesses are expected to improve in the medium term. ICRA, thus, expects the consolidated leverage to moderate to below 1.5 times over the next two to three years. However, any significant slowdown in cash flow generation from the expected levels, resulting in a delay in moderation, will be a key rating sensitivity.

Liquidity position

Overall, the company's liquidity position remains healthy with its access to unused working capital limits of Rs. 72 crore, at present. Agrocel's debt has long tenure and ballooning repayment schedule; hence, the annual repayment obligation is low at ~Rs. 30-40 crore for next three to four years. ICRA expects the cash accruals to improve further with the improvement in scale and profitability. This, along with the unutilised working capital limits and the absence of major capex plans, should result in a comfortable liquidity position for Agrocel.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Chemical Industry Corporate Credit Rating Methodology
Parent/Group Support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has revised its approach and included Solaris's business and financial risk profile, post the acquisition by Agrocel (whereby Solaris has become a subsidiary of Agrocel). ICRA has considered the consolidated financials of Agrocel, its three subsidiaries and associate, which are enlisted in Annexure-2.

About the company

Agrocel Industries Private Limited is a part of the Excel Group of companies, promoted by the Shroff family. Its Group companies include Excel Industries Limited, Transpek Industries Limited and others. Agrocel has two business divisions operating in diverse segments - marine chemical and agro-service. The marine chemical division, established in 1994, manufactures bromine and bromine-based speciality and fine chemicals. The facilities are at the Great Rann of Kutch and Bhavnagar in Gujarat. The agro-service division, established in 1989, undertakes agriculture-related activities and deals primarily in the niche organic and fair trade markets.

In FY2018, the company reported a net profit of Rs. 70.4 crore on an OI of Rs. 280.7 crore, compared to a net profit of Rs. 89.9 crore on an OI of Rs. 237.9 crore in the previous year. In 9M FY2019, on a provisional basis, the company reported a profit before tax of Rs. 175 crore on an OI of Rs. 365 crore.

About Solaris Chemtech Industries Ltd.

Agrocel acquired Solaris in December 2018 at an enterprise value of Rs. 760 crore from Avantha Holdings Ltd. Post this, Solaris became a wholly-owned subsidiary of Agrocel.

Solaris, incorporated in 2001, manufactures bromine and bromine-based speciality chemicals. It has access to 67,000 acres of salt desert in the Great Rann of Kutch. Its products include bromine, brominated flame retardants, speciality chemicals and active pharmaceutical ingredient intermediates. Solaris's plants are located next to its reservoirs in the Great Rann of Kutch, adjacent to Agrocel's manufacturing facility. It also has a research and development facility and a multi-purpose plant near Vadodara, Gujarat. The manufacturing capacity is ~33,000 MT per annum.

Key financial indicators (Standalone)

	FY2017	FY2018
Operating Income (Rs. crore)	238.0	280.7
PAT (Rs. crore)	89.9	70.4
OPBDIT/ OI (%)	38.0%	39.8%
RoCE (%)	71.7%	44.3%
Total Debt/ TNW (times)	0.2	0.0
Total Debt/ OPBDIT (times)	0.3	0.1
Interest Coverage (times)	38.5	54.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	Date & Rating in FY2018 March 2018	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 September 2015
1	Cash Credit	Long Term	72	-	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)
2	Term Loan	Long Term	145	145*	**[ICRA]A+ (Stable)**	-	-	**-**
3	Non-fund Based Limits	Short Term	27	-	**[ICRA]A1**	[ICRA]A1+	[ICRA]A1	[ICRA]A2+
4	Fixed Deposit programme#	Medium Term	-	-	**-**	-	MA+ (Stable)	MA- (positive)

** as on December 31, 2018*
 # instrument fully redeemed; ratings withdrawn in March 2018

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	-	-	-	72	[ICRA]A+(Stable)
NA	Term Loan	December 2018	10.25%	December 2024	145	[ICRA]A+ (Stable)
NA	Non-fund Based Limits	-	-	-	27	[ICRA]A1

Source: Agrocel Industries Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
ECCL Investments and Finance Limited	100.00%	Full Consolidation
Kutch Crop Services Limited	65.00%	Full Consolidation
Solaris Chemtech Industries Limited*	100.00%	Full Consolidation
Excel Genetics Limited	32.14%	Equity Method

** with effect from January 2019*

Source: Agrocel Industries Private Limited

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About ICRA Limited:

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For more information, visit www.icra.in

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