

October 25, 2019

## Intech organics Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working capital	11.00	11.00	[ICRA]BBB- (Stable); reaffirmed
Fund Based – Working capital	19.72	19.72	[ICRA]BBB- (Stable); reaffirmed
Non-fund Based	28.25	28.25	[ICRA]A3; reaffirmed
Unallocated	0.03	0.03	[ICRA]BBB- (Stable)/ A3; reaffirmed
<b>Total</b>	<b>59.00</b>	<b>59.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation factors in the 33% increase in Intech Organics Limited's (IOL) operating income (OI) in FY2019 (provisional) and improvement in cash accruals. ICRA also takes note of the Government's approvals to increase the production capacity of both methyl bromide (MeBr) and aluminium phosphide (ALP). However, there has been a decline in operating profit margin (OPM) on a consolidated level owing to the acquisition of Agrosynth Chemicals Limited (ACL), which had a weak operational profile. Also, the company's financial profile, mainly interest coverage and DSCR, deteriorated due to the loans it took to acquire ACL in FY2019 (provisional).

The rating continues to draw comfort from IOL's established customer base, which results in repeat orders and facilitates additions of new customers from overseas markets. ICRA also positively considers the significant experience of the promoters in fumigation services through the parent company, Pest Kare (India) Private Limited (PIPL). Further, ICRA factors in the high entry barriers in the industry and favourable demand prospects for MeBr due to the lack of effective alternatives for quarantine and pre-shipment fumigation (QPS) purposes. Moreover, IOL plans to commence commercial production of aluminium phosphide in FY2020, which is likely to boost revenue growth in the near to medium term.

However, the ratings are constrained by the changes in raw material prices and adverse exchange rate movement, which led to volatility in the margins in the past. ICRA also continues to consider the working capital intensive nature of operations as depicted by the high debtors. In addition, ICRA notes that the company is at present in the middle of a debt-funded capex for manufacturing ALP, which is expected to become operational by Q4 FY2020. The demand for the new product as well as margins from the same remain to be seen in the near to medium term. Further, the ratings take into account the company's moderate scale compared to global players that pose strong competition and limit its bargaining power. Moreover, the moderate DSCR levels owing to high repayment liability in the near to medium term constrain the ratings. Also, the demand for the company's products remains dependent on the regulatory environment as the use of MeBr is regulated under the Montreal Protocol<sup>1</sup>.

<sup>1</sup> The **Montreal Protocol** is an international treaty designed to protect the ozone layer by phasing out the production of numerous substances believed to be responsible for ozone depletion. The protocol came into force in 1989.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that IOL will continue to benefit from the extensive experience of its promoters and its established track record in the MeBr industry.

## Key rating drivers and their description

### Credit strengths

**Significant experience of promoters in fumigation services** - Incorporated in 1999, IOL started manufacturing MeBr in 2004. The current promoters, Mr. Navanshu Saharan and Mr. Divyanshu Saharan, took over the company in 2007 from the original promoters. IOL is a subsidiary of PIPL, which is promoted by the Saharan family and is involved in the business of pest control and fumigation services.

**Healthy revenue growth in last few years** - IOL recorded a healthy revenue growth during the last few years on account of capacity expansions and additions of new customers in both domestic and overseas markets. The company's revenues grew by ~33% in FY2019 (provisional) compared to FY2018.

**High entry barrier 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 has to be in a very controlled environment and can be used for QPS services only. Hence, it is very difficult for the new entrants in the industry to establish a foothold. The lack of effective alternatives for QPS provides favourable prospects for MeBr. The company also recently got approval to export to USA. However, any change in regulatory policy would be a key monitorable.

### Credit challenges

**Low capacity utilisation in ACL and delay in ALP commercial production** - In FY2019, IOL acquired ACL, which had been operating at low capacity level and had a weak operational profile. The optimal capacity utilisation will remain the key for the overall improvement in IOL's operation profile. IOL took loans to acquire ACL, which also impacted its financial profile in FY2019 (provisional). Moreover, there was a delay in commercial production of ALP, which was originally scheduled for Q4 FY2019 (now re-scheduled for Q4 FY2020), which might have an impact on the return indicators in the near term.

**Exposure of profitability to foreign exchange rate volatility and raw material price variation** - The key raw material required for manufacturing MeBr is bromine, which constitutes about 80% of the raw material. At present, the company procures most of the bromine from Albemarle Europe SPRL (Albemarle), a Belgium-based company. Given the long production cycle, the company's profitability remains exposed to variations in raw material prices and foreign exchange rates.

**Stiff competition from much larger players in global market** - 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. This limits competition, with only a few other manufacturers in the domestic market and only two other major manufacturers in the export market. However, IOL's scale of operations is smaller than these large companies and hence its bargaining power is much weaker than the other players.

### Liquidity position: Adequate

IOL's liquidity is **adequate** on account of equity infusion, cushion in available in the working capital limits, and sufficient cash generation of the business to repay of term debt and working capital funding.

## Rating sensitivities

**Positive triggers:** ICRA could upgrade the rating if there is a sustained improvement in the sales turnover and profitability margins coupled with efficient working capital management.

**Negative triggers:** ICRA could downgrade the rating if there is a decline in profitability margins, or deterioration in the working capital parameters weakens the financial risk profile. Any adverse regulatory changes in trade practice could also lead to a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of IOL and ACL

## About the company

Incorporated in 1999, IOL commenced commercial production of MeBr in 2004. The name and corporate status of the company changed from Intech Pharma Private Limited in September 2017. MeBr is an ozone-depleting gas and hence its production and usage are restricted as per the Montreal Protocol. The gas is primarily used for 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 promoters, Mr. Navanshu Saharan and Mr. Divyanshu Saharan, took over the company in 2007 from the original promoters. IOL is a subsidiary of PIPL, a company promoted by the Saharan family, which is involved in the business of pest control and fumigation services. PIPL provides services such as vessel on board fumigation, container fumigation, empty ship-hold fumigation, bulk/bagged commodity fumigation and factory/plant fumigation.

## Key financial indicators (Audited/Provisional)

	FY2018	FY2019 (provisional)#
Operating Income (Rs. crore)	110.12	146.32
PAT (Rs. crore)	5.70	7.01
OPBDITA/ OI (%)	12.01	10.27
RoCE (%)	16.55	16.47
Total Outside Liabilities/Tangible Net Worth (times)	1.60	1.76
Total Debt/ OPBDITA (times)	3.02	2.50
Interest Coverage (times)	4.43	3.68
DSCR (times)	2.35	1.87

Source: Company data, #provisional financial submitted by the management

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 25, 2019	Date & Rating in FY2019 August 14, 2018	Date & Rating in FY2019 July 9, 2018	Date & Rating in FY2018 January 3, 2018	
1 Cash Credit	Long Term	11.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	
2 Term Loans	Long Term	19.72	19.72	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	
3 Letter of Credit	Short Term	27.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+	
4 Bank Guarantee	Short Term	0.25	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+	
5 Loan Equivalent risk	Short Term	1.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+	
6 Unallocated	Long/ Short Term	0.03	-	[ICRA]BBB- (Stable)/A3	[ICRA]BBB- (Stable)/A3	[ICRA]BBB- (Stable)/A3	[ICRA]BB+ (Positive)/A4+	

## 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](http://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	-	-	-	11.00	[ICRA]BBB- (Stable)
NA	Term Loans	April 2018	-	March 2023	19.72	[ICRA]BBB- (Stable)
NA	Letter of Credit	-	-	-	27.00	[ICRA]A3
NA	Bank Guarantee	-	-	-	0.25	[ICRA]A3
NA	Loan Equivalent Risk	-	-	-	1.00	[ICRA]A3
NA	Unallocated	-	-	-	0.03	[ICRA]BBB- (Stable)/A3

Source: NMPL

### Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
Intech Organics Limited	NA	Full consolidation
Agrosynth Chemicals Limited	100%	Full consolidation

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