December 23, 2021

NGL Fine-Chem Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	15.30	23.90	[ICRA]BBB+(Stable); reaffirmed
Working capital facilities	18.50	18.50	[ICRA]BBB+(Stable); reaffirmed
Letter of credit	4.80	8.00	[ICRA]A2; reaffirmed
Derivative limit	4.00	10.00	[ICRA]A2; reaffirmed
Total	**42.60**	**60.40**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of the business and financial profiles of NGL Fine-Chem Limited (NGL) and its wholly-owned subsidiary, Macrotech Polychem Private Limited (MPPL), due to their operational and financial linkages.

The rating action factors in steady revenue growth registered by NGL over FY2021 and H1 FY2022, supported by increase in average realisations as well as sales volumes. NGL's operating and net margins improved to 31.1% and 22.0%, respectively, in FY2021 from 14.5% and 5.5%, respectively, in FY2020. This was driven by an improved revenue profile and product mix, operating efficiency, softening in raw material prices and lower operating expenditures (power and employee costs). The operating margins witnessed a sharp contraction to 21.9% in Q2 FY2022 from 31.1% in Q1 FY2022 because of rising raw material prices and inability of the company to fully pass on these costs to customers given the short-term nature of contracts. Nonetheless, full-year fiscal margins are expected to remain comfortable despite the adverse impact of rising raw material prices.

Additionally, the ratings continue to factor in the extensive experience of NGL's management in animal health active pharmaceutical ingredients (API) segment, its geographically diversified presence in domestic and international markets, coupled with a well-established customer base. NGL continues to maintain a strong market share of more than 50% for its top three APIs (Diminazene, Clorsulon and Buparvaquone), supported by competitive cost proposition since it is partly backward integrated for basic chemicals.

NGL is undertaking a sizeable debt-funded capital expenditure (capex) of ~Rs. 100 crore over an 18-month period of FY2023-FY2024, towards greenfield expansion at Tarapur (Maharashtra). This capex is to be funded through internal accruals and long-term debt (yet to be sanctioned). Notwithstanding some moderation in the near term, NGL debt protection metrics are expected to remain comfortable. With a gestation period of 10-12 months for the capex, achieving the desired levels of scale-up in revenues and accruals remains to be seen.

The ratings, however, remain constrained by NGL's moderate scale of operations and high working capital intensity of business emanating from receivables and elevated inventory holding cycle. NGL has placed orders for additional raw materials in advance to mitigate the impact of rising raw material prices. The ratings also consider the vulnerability of the company's profitability to volatility in raw material prices and forex movement. Given the nature of short-term contracts, the company's operating profitability remains exposed to the adverse movements in the raw materials prices that cannot be passed onto the customers.

In the past, the company had received closure notices from the Maharashtra Pollution Control Board (MPCB). There was no material adverse impact of the same on NGL's operations and the concerns raised by MPCB were addressed by the company and all its plants are fully operational. ICRA will continue to monitor any further such events related to temporary closure of NGL's manufacturing facilities or discontinuation of manufacturing licenses.

The Stable outlook on the long-term rating reflects ICRA's opinion that NGL will continue to benefit from its established track record, a diversified customer base and geographic reach, strong market share in its key molecules and a comfortable financial profile.

Key rating drivers and their description

Credit strengths

Extensive experience of management in animal health API industry – Incorporated in 1981, NGL primarily manufactures veterinary pharmaceutical APIs and intermediates catering to the anti-protozoal and anthelmintic therapeutic segments. The directors, Mr. Rajesh Lawande and Mr. Rahul Nachane, have an experience of over two decades in the manufacturing of animal health APIs.

Diversified geographic reach and customer base – The company derives 20-25% of its sales from the domestic market and the remaining from export sales to semi-regulated markets in Europe, Asia Pacific, West Asia and Latin America. The management does not intend to cater to regulated markets in the near-to-medium term with the incremental increase in operating costs, increased regulatory requirements and healthy demand and offtake from current existing markets. It has a diversified client base with more than 400 customers, with the top five accounting for ~23-25% of total sales in FY2021 and H1 FY2022, respectively. Healthy relationships with its customers over the last two decades, have resulted in several repeat orders.

Comfortable financial profile and coverage indicators – Despite some moderation in the initial months of FY2021 owing to the pandemic, NGL has reported good revenue growth for the fiscal with an OI of Rs. 258.0 crore. The company continued to witness healthy demand offtake and an increase in realisations resulting in an OI of Rs. 155.7 crore in H1 FY2022. NGL's operating and net margins improved to 31.1% and 22.0%, respectively, in FY2021 from 14.5% and 5.5%, respectively, in FY2020. This was driven by an improved revenue profile and product mix, operating efficiency, softening in raw material prices and lower operating expenditures (power and employee costs). The OPM is expected to moderate in FY2022 from 27.1%in H1 FY2022 because of rising raw material prices and inability to fully pass on these costs to customers given the short-term nature of contracts; and normalisation of some operational overheads (employee and administrative expenses). The coverage metrics continue to remain comfortable as depicted by total debt/OPBDITA and DSCR of 0.2 times and 8.5 times, respectively, in FY2021 and0.3 time and 11.1 times, respectively, in H1 FY2022. During FY2023-FY2024, despite the sizable debt-funded capex, the financial profile is expected to remain comfortable.

Credit challenges

Moderate scale of operations – The company is a mid-sized API and intermediate manufacturer with revenues of Rs. 258.0 crore in FY2021. The revenue growth in FY2021 was driven by growth in market share across products and an increase in realisations. The near-term revenue growth is supported by healthy demand offtake, penetration in new geographies and increasing realisations. Furthermore, commercialisation of intermediate capacities at its subsidiary in December 2021, the revenues are expected to continue to grow. NGL is also undertaking greenfield expansion, which is expected to commercialise by September 2023 and improve the company's revenue base in the medium to long-term.

In the past the company had received closure notices from MPCB. While the concerns raised by MPCB have been addressed by the company and all its plants are fully operational, ICRA will continue to monitor any further events related to temporary closure of NGL's manufacturing facilities or discontinuation of manufacturing licenses. Given the nature of its operations, NGL will continue to be exposed to changing regulations relating to environmental norms. Of the four existing facilities of the company, one is a zero-liquid discharge facility and another one will be converted by March 2022. The two remaining units which are smaller in size with limited revenue contribution, get their effluent treated from an external company in Tarapur (Maharashtra), licensed by the MPCB.

Significant near-term debt-funded capex; desired level of scale-up remains to be seen – NGL is undertaking a sizeable debt-funded capex of ~Rs. 100 crore for greenfield expansion of capacities over an 18 month period during FY2023-FY2024 (September 2023). The capex will be funded by internal accruals and long-term debt that is in the advanced stages of sanction. With a gestation period of 10-12 months for the capex, achieving the desired levels of scale-up in revenues and accruals remains a key sensitivity. The risk is mitigated, to an extent, by the long tenure of debt and strong demand and market position of the company's molecules in the veterinary API industry.

High working capital intensity of operations – NGL's working capital intensity has historically remained high due to increased receivables and elevated inventory levels. In FY2021, the NWC/OI improved to 23.2% because of lower receivable days though it is expected to normalise to previous levels of 70-80 days going forward. The company's overall inventory levels increased considerably by end of September 2021 due to an increase in raw material prices, work in progress (WIP) and finished good inventory. NGL placed orders for additional raw materials in advance to mitigate the impact of the rising prices. Moreover, the company historically has sizeable WIP inventory given the variation in production cycle for basic chemicals which can range up to eight weeks.

Vulnerability of profitability to volatility in raw material prices and forex rates – NGL's raw materials are intermediates and solvents used for manufacturing the APIs. Given the nature of short-term contracts, the company's operating profitability remains exposed to the adverse movements in the raw material prices. This was also demonstrated by volatility in operating margins in the past as well as a sharp contraction to 21.9% in Q2 FY2022 from 31.1% in Q1 FY2022. Margins are expected to remain moderated over the next few quarters with the anticipated increase in raw material prices, partly attributable to volatility in supply. Exports drive ~75% of NGL's revenues while imports are 20-25% of its total purchases. The forex risk is mitigated by the natural hedge the company enjoys and booking of forward contracts of varying durations, to cover a part of its export receivables.

Liquidity position: Adequate

NGL's liquidity position is **adequate** with healthy estimated funds flow from operations of ~Rs. 45-55 crore in FY2022. The company recorded free cash and bank balance (including liquid investments) of Rs. 39.9 crore and unutilised limits of Rs. 11.3 crore as on September 30, 2021. Its monthly utilisation of the fund-based working capital averaged at 23% of the sanctioned limit during the 12-month period that ended on September 30, 2021, providing adequate cushion to support the liquidity. The company has a debt repayment obligation of Rs. 6.3 crore in FY2022 and Rs. 3.1 crore in FY2023. NGL's greenfield capex of ~Rs. 100 crore in FY2023-FY2024, will be funded through a mix of debt (~Rs.60-65 crore; yet to be sanctioned) and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade NGL's rating if the company demonstrates a healthy scale-up in revenues owing to fresh capacities and enhancements with diversification in its product portfolio while also maintaining its strong market position in the existing animal healthcare APIs. NGL's ability to maintain healthy operating margins and liquidity position on a sustained basis will be the key towards an upward movement in its rating.

Negative factors –Negative pressure on NGL's rating could arise if there is any significant pressure on its revenues and profitability or any stretch in its liquidity position owing to elongation of the working capital cycle or cost overruns in the ongoing capex programme. Specific credit metrics that could lead to a rating downgrade is Total Debt/OPBITDA exceeding 2.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Pharmaceutical Industry](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of NGL Fine-Chem Limited. As on September 30, 2021, the company had one subsidiary, which is listed in Annexure-2.

About the company

NGL is a veterinary API manufacturer, incorporated in 1981 by Mr. Narayan Lawande, with its products being used in the animal health industry. The company is listed on the Bombay Stock Exchange since 1994. NGL's four manufacturing facilities are allin Tarapur (Maharashtra), and are good manufacturing practice (GMP)-certified from the Maharashtra State Food and Drug Administration (FDA). NGL has a strong and growing international presence in Latin America, Asia and Europe.

NGL acquired 100% stake in Macrotech Polychem Private Limited (MPPL) in May 2019. MPPL manufactures pharmaceutical intermediates and serves as the backward integrated unit for the company.

Key financial indicators

Consolidated	FY2020 (Audited)	FY2021 (Audited)	H1 FY2022 (Limited Audit)
Operating Income (Rs. crore)	151.7	258.0	155.7
PAT (Rs. crore)	8.3	56.7	33.0
OPBDIT/OI (%)	14.5%	31.1%	27.1%
PAT/OI (%)	5.5%	22.0%	21.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.3	0.4
Total Debt/OPBDIT (times)	1.3	0.2	0.3
Interest Coverage (times)	8.4	36.4	54.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA Research
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding on Sept 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019
					Dec 23, 2021	Mar 16, 2021*	Feb 23, 2021*	Oct 01, 2020	Jan 01, 2020	April 03, 2019	Jan 14, 2019
1	Term loans	Long Term	23.90	9.1	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Working capital facility	Long-Term	18.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Letter of credit	Short-Term	8.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Derivative limit	Short-Term	10.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

**Ratings outstanding*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Working capital facility	Simple
Letter of credit	Very Simple
Derivative limit	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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
HDFC Bank Limited	Term loan 1	Nov 2016	8.8%	Jul 2022	15.00	[ICRA]BBB+ (Stable)
	Term loan 2	Mar 2018	8.8%	Nov 2023	2.50	[ICRA]BBB+ (Stable)
	Term loan 3	Jul 2019	8.1%	Feb 2025	6.40	[ICRA]BBB+ (Stable)
	Working capital limits	NA	NA	NA	18.50	[ICRA]BBB+ (Stable)
	Letter of credit	NA	NA	NA	8.00	[ICRA] A2
	Derivative limit	NA	NA	NA	10.00	[ICRA] A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Macrotech Polychem Private Limited	100.00%	Full Consolidation

Source: *Company*

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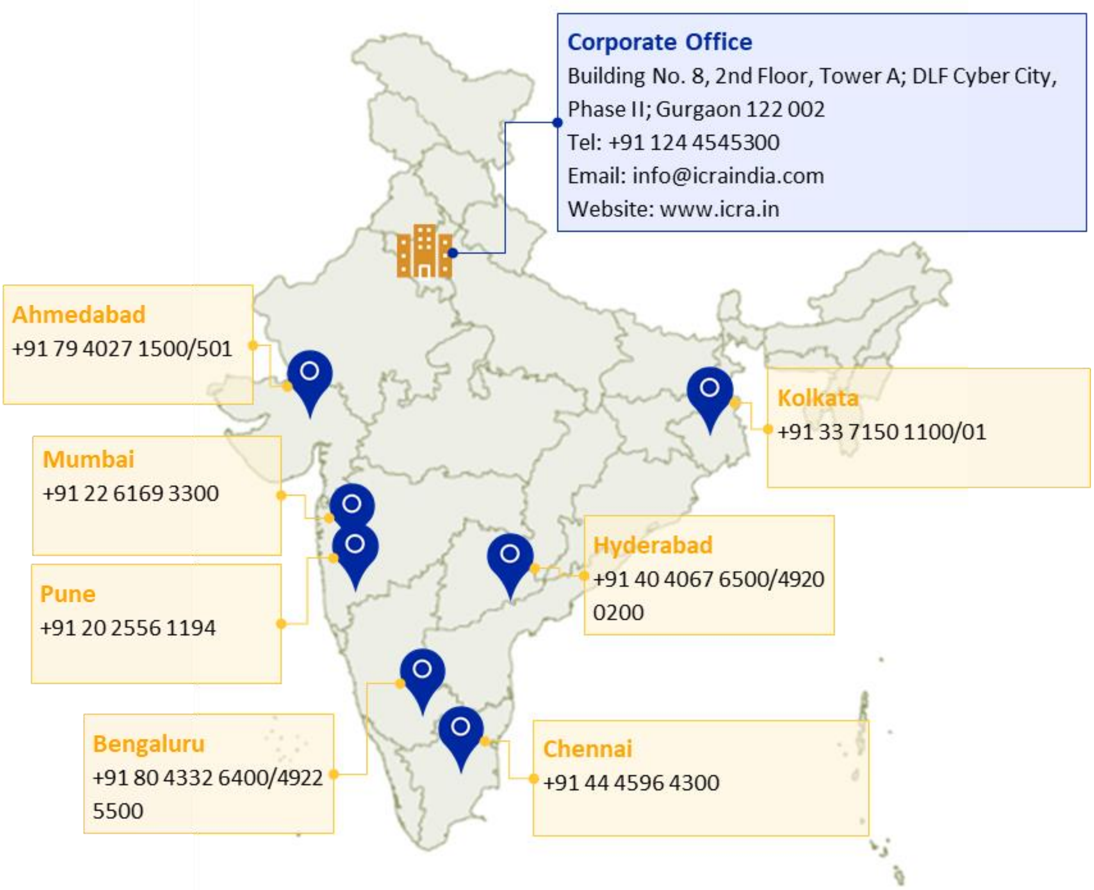

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