May 18, 2023

Indogulf Cropsciences Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loan	25.00	[ICRA] BBB+ (Stable); assigned
Total	**25.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating factors in the established position of Indogulf Cropsciences Limited (ICL) in the agrochemical industry and the extensive experience of the promoters in the industry. The rating also takes into account a diversified product portfolio, comprising insecticides, fungicides and weedicides, herbicides and plant growth regulators. ICL's long-standing relations with reputed technical manufacturers, which enable it to regularly introduce specialty formulations, also support the rating. The rating also factors in the planned backward integration into manufacturing technicals 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.

The company's scale of operations has remained range-bound in the past. However, some growth was witnessed in FY2022, and the growth trend is expected to continue with the proposed capex plans. The credit profile remains comfortable, evident from its healthy capital structure (gearing of 0.6 times as on March 31, 2022) and adequate debt coverage metrics (interest cover of more than 8 times and debt/OPBDITA of 2.3 times for FY2022). The metrics are expected to remain in a similar range, going forward.

However, the rating is constrained by the high working capital intensity of the business, 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 comfortable, going forward, driven by healthy cash generation, despite the planned capex and elevated working capital requirements.

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 the product segment i.e. insecticides, herbicides etc. as well as across crops. The company 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 and low debt levels. The capitalisation and coverage metrics have remained adequate with gearing levels of 0.6 times in FY2022. The interest coverage rose to 8.1 times in FY2022 vis-à-vis 7.7 times in FY2021.

Expected benefits of backward integration from FY2025; project execution risks remain – The company is setting up a formulation manufacturing plant at Sonipat, with a total capital outlay of Rs. 50 crore over the next two years. The plant will provide an additional stream of revenue. Moreover, the company is planning to do L-2 backward integration which will also improve the margins. Thus, ICRA expects the company to start deriving the benefit of backward integration and the new formulation plant from FY2025.

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) has recently 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 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 expose the company's profit margins to the volatility in raw material prices and foreign exchange rates.

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

Liquidity position: Adequate

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

Rating sensitivities

Positive factors – The rating may be upgraded if the company demonstrates a significant growth in revenue accompanied with healthy cash generation with limited reliance on debt.

Negative factors – The rating could be revised if there is a considerable decline in revenue and pressure on profit margins. Moreover, further elongation in the working capital cycle or a sizeable debt-funded capex may put pressure on the liquidity position and lead to a downward revision of the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Agrochemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ICL; as on March 31, 2022, the company had one subsidiary (enlisted in Annexure-2)

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 Middle East. Its product basket includes micronutrients, pesticides, fertilisers, insecticides, fungicides, herbicides and plant growth regulators. It has three manufacturing units, two technical units in Nathupur-Haryana and a formulation unit in Jammu. ICL is promoted by Mr. Om Prakash Aggarwal & other family members.

Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	467.4	507.3
PAT (Rs. crore)	23.0	26.5
OPBDIT/OI (%)	8.1%	8.8%
PAT/OI (%)	4.9%	5.2%
Total outside liabilities/Tangible net worth (times)	1.7	1.5
Total debt/OPBDIT (times)	2.1	2.3
Interest coverage (times)	7.7	8.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating on	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					18-May-2023	-	-	-
1	**Fund-based – Term loan**	Long- term	25.00	15.32	[ICRA] BBB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term loan	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 are 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
-	**Long-term – Fund based – Term loan**	September 28, 2021	NA	October 31, 2024	25.00	[ICRA] BBB+ (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis- Not applicable

Company Name	Ownership	Consolidation Approach
Indogulf Cropsciences Limited	100.00% (rated entity)	Full Consolidation
Abhiprakash Globus Private Limited	100.00%	Full Consolidation

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Saurabh Parikh
+91 22 6169 3300
saurabh.parikh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches