

April 01, 2024

NGL Fine-Chem Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based term loan	120.00	120.00	[ICRA]BBB+(Stable); reaffirmed
Long-term fund based working capital facilities	37.00	37.00	[ICRA]BBB+(Stable); reaffirmed
Short-term non-fund based letter of credit	8.00	8.00	[ICRA]A2; reaffirmed
Total	165.00	165.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings of NGL Fine-Chem Limited (NGL), ICRA has taken a consolidated view of the business and financial profiles of NGL and its wholly owned subsidiary, Macrotech Polychem Private Limited (MPPL), given their strong operational and financial linkages and common management.

The reaffirmation of ratings of NGL Fine-Chem Limited (NGL) factors in the company's established operational track record, the extensive experience of its management in the animal health active pharmaceutical ingredients (API) segment, its diversified geographical presence in domestic and international markets and its well-established client base built over the years. Also, NGL continues to maintain a strong market share for its top three APIs (diminazene, clorsulon and buparvaquone), supported by a competitive cost proposition since it is partly backward integrated for basic chemicals. The company's performance was impacted in FY2023 on account of subdued demand. However, there has been some improvement in the current fiscal, as NGL reported revenue of ~Rs. 239 crore in 9M FY2024 (19.5% YoY growth). This growth was driven by higher volumes, although average realisations remained moderate. This, coupled with stable input prices, led to an improvement in operating margins to 15.8% in 9M FY2024 from 12.6% in FY2023. Going forward, top line growth is expected to be supported by improvement in realisations, penetration in new geographies and expansion of its product line.

The ratings, however, remain constrained by the moderate scale of operations and high working capital intensity of NGL's business, stemming from receivables and an elevated inventory holding cycle. Also, the company's profitability remains vulnerable to volatility in raw material prices, as demonstrated in FY2023. Moreover, given the nature of short-term contracts, the company's operating profitability remains exposed to the movements in the raw materials prices that cannot be passed on to customers. Also, the entity is also exposed to forex movements; however, this risk is largely mitigated by hedging.

ICRA has also taken note of NGL's sizeable capex plans for its greenfield expansion at Tarapur (Maharashtra) for its manufacturing capacities, enabling the company to widen its product base and also venture into regulated markets. The total project outlay is estimated to be ~Rs. 140 crore (of which ~Rs. 45 crore has already been incurred as on December 31, 2023), which would be funded through a mix of debt and internal accruals. Despite some moderation over the near term owing to part funding of this capex through debt and the gestation period of the project, NGL's debt protection metrics and return indicators are expected to remain comfortable. The planned capex is expected to provide incremental revenue generation over the medium term, but timely commercialisation and adequate capacity utilisation remain key credit monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that NGL will maintain an adequate financial profile, supported by steady internal accrual generation and a comfortable capital structure.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of the promoters in the animal health API industry – Incorporated in 1981, NGL primarily manufactures veterinary pharmaceutical APIs and intermediates, catering to the anti-protozoal and anthelmintic therapeutic segments. Over the years, the company has formed established relationships with its customers in India and several other countries. Further, the company continues to benefit from the extensive experience of its Directors Mr. Rajesh Lawande and Mr. Rahul Nachane, in the animal health APIs industry.

Diversified geographic reach and customer base – With decades of experience in pharmaceutical API manufacturing, NGL has developed a strong client base of more than 400 customers globally. NGL derives ~25% of its sales from the domestic market and the remaining from export sales to the semi-regulated markets in Europe, Asia Pacific, West Asia and Latin America. The company's established relationships with its clients resulted in several repeat orders for the company. Despite the moderation in demand witnessed in FY2023, the company has largely maintained its market share in key geographies/molecules.

Comfortable leverage levels and coverage indicators – With relatively lower debt levels and steady internal accrual generation, NGL's capital structure is comfortable as reflected by its gearing ratio of 0.1 times and total outside liabilities/tangible net worth (TOL/TNW) of 0.3 times as on March 31, 2023. Also, its coverage metrics remained comfortable with total debt/OPBDITA and DSCR of 0.9 times and 6.7 times, respectively, in FY2023. NGL is undertaking a sizeable capex towards its greenfield expansion at Tarapur (Maharashtra) for the expansion of its manufacturing capacities, enabling it to widen its product base and also venture into regulated markets. The total project outlay is estimated to ~Rs. 140 crore, which would be funded through a mix of debt and internal accruals. Despite some moderation over the near term owing to part funding of this capex through debt and the gestation period of the project, NGL's debt protection metrics and return indicators are expected to remain comfortable.

Credit challenges

Moderate scale of operations – NGL is a mid-sized API and intermediate manufacturer, with revenues of Rs. 278.1 crore in FY2023. Despite healthy revenue growth expected in FY2024, NGL's scale of operations remains moderate relative to the industry's size. Growth in the coming years is expected to be supported by penetration into new geographies and expansion of the product line.

Vulnerability of profitability to volatility in raw material prices and forex rates – NGL's major raw materials include intermediaries and solvents used in API manufacturing. Given the nature of short-term contracts, the company's operating profitability remains exposed to adverse movements in the raw material prices. Further, NGL has a significant exposure in the global market with more than 75% of revenues coming from exports and ~25% of its raw materials sourced through imports. Nonetheless, the forex risk is partly mitigated by the natural hedge and by booking forward contracts of varying durations.

High working capital intensity of operations – NGL's operations have remained working capital intensive on account of high inventory and receivable levels. The company historically has a sizeable work-in-process (WIP) inventory, given the variation in production cycle for basic chemicals that ranges up to eight weeks. Consequently, the working capital intensity, reflected in the NWC/OI, remained high at ~29% in FY2023 and is likely to largely remain at similar levels going forward.

Significant near-term debt-funded capex; desired level of scale-up remains to be seen – NGL had planned a sizable capex for its greenfield expansion at Tarapur (Maharashtra), which was postponed due to a relatively weaker demand scenario. However, with the recovery in demand, the management has decided to accelerate the work and complete the project by December 2025. The total project outlay is estimated at ~Rs. 140 crore, which would be funded through a mix of debt and

internal accruals. While the company has not availed any debt for this capex, it is expected to avail debt over FY2025-FY2026, which would moderate the coverage metrics to some extent over the period.

Liquidity position: Adequate

NGL's liquidity position continues to be adequate, supported by cash and investments of Rs. 54.9 crore as on March 12, 2024, and sufficient buffer in its working capital lines, with a utilisation rate of 30% for the 12 months ended February 2024. ICRA notes NGL's upcoming capex of ~Rs.140 crore, which is expected to be funded through a mix of debt and internal accruals.

Environmental and Social Risks

Environmental considerations - NGL does not encounter any major physical climate risk. However, it remains exposed to tightening environmental regulations with regard to breaches of waste and pollution norms, which can lead to an increase in operating costs and new capacity installation costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce its carbon footprint and waste generation. To minimise the impact of environmental risks on its operations, NGL has taken initiatives to reduce waste generation and energy conservation. The company has converted its flagship facility and Macrotech's facility into zero liquid discharge, where the entire liquid effluent is recycled and reused within the company. For the other two plants, NGL has collaborated with an external agency that treats the waste for NGL to ensure compliance with the Maharashtra Pollution Control Board (MPCB).

Social considerations – The industry encounters social risks related to product safety and its associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. However, the company has been proactive in addressing the same by trying to follow the best business practices.

Rating sensitivities

Positive factors – ICRA could upgrade NGL's rating if the company demonstrates a healthy scale-up in revenues and considerable improvement in margins, with diversification in its product portfolio while also maintaining its strong market position in the existing animal healthcare APIs.

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 Pharmaceuticals industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of NGL

About the company

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

NGL acquired a 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 (audited)

NGL – Consolidated	FY2022	FY2023	H1 FY2024
Operating income	317.5	278.1	151.2
PAT	49.9	20.5	19.0
OPBDIT/OI	21.5%	12.6%	15.8%
PAT/OI	15.7%	7.4%	12.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.3
Total debt/OPBDIT (times)	0.4	0.9	0.6
Interest coverage (times)	35.6	19.1	39.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2023			Date & rating in FY2022		
					April 01, 2024	Mar 31, 2023	Feb 27, 2023	Dec 23, 2021	Mar 16, 2021*	Feb 23, 2021*
1 Term loans	Long term	120.00	4.1	[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	37.00	-	[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	-	-	-	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

* Ratings outstanding

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Working capital facility	Simple
Letter of credit	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 analysing 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2018	8.8%	FY2025	120.00	[ICRA]BBB+ (Stable)
NA	Working capital limits	NA	NA	NA	37.00	[ICRA]BBB+ (Stable)
NA	Letter of credit	NA	NA	NA	8.00	[ICRA] A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

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

Source: NGL annual report FY2023

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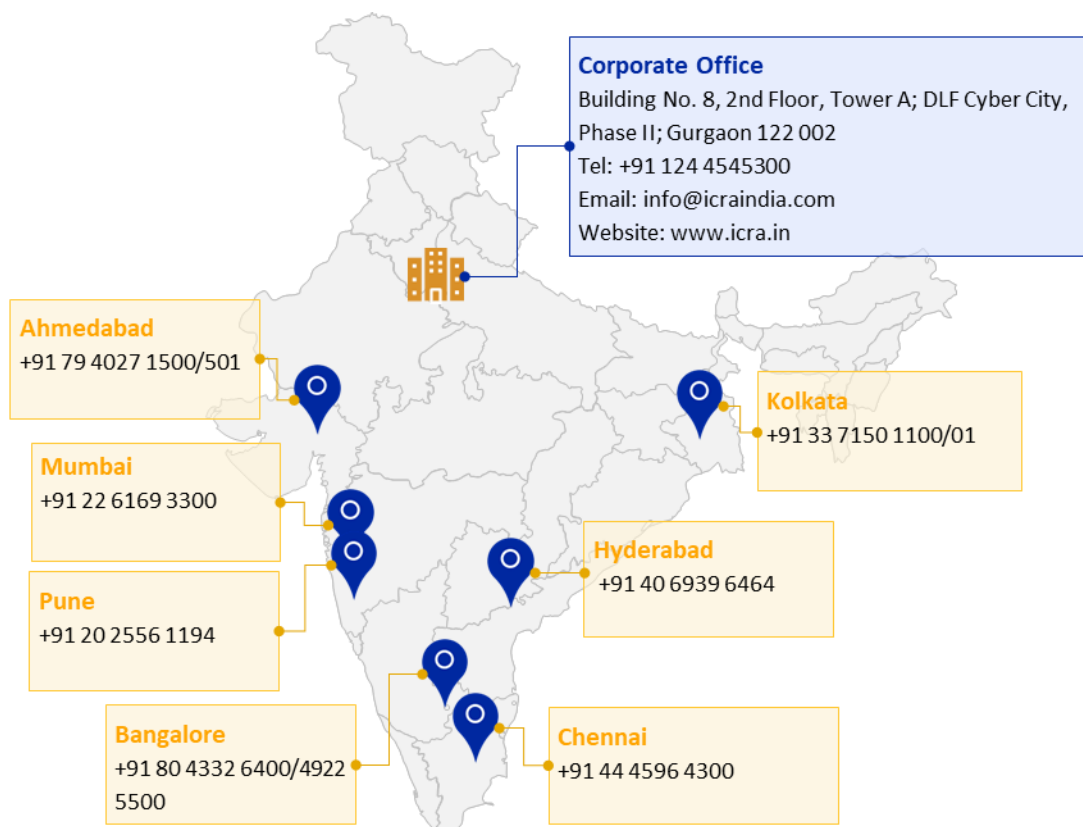


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