January 01, 2020

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 Loans	17.50	15.30	[ICRA]BBB+(Stable); Reaffirmed
Long-term Fund-based Cash Credit	16.30	18.50	[ICRA]BBB+(Stable); Reaffirmed
Short-term Non-fund Based Letter of Credit	4.80	4.80	[ICRA]A2; Reaffirmed
Short-term Non-fund Based PSR Limit	4.00	4.00	[ICRA]A2; Reaffirmed
Total	**42.60**	**42.60**	

**Instrument details are provided in Annexure-1*

Rationale

While reaffirming the ratings, 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).

The ratings reaffirmation continues to take into account the extensive experience of NGL's management in animal health active pharmaceutical ingredients (API) segment, its geographically diversified presence in both the domestic and the international market and well-established clientele with repeat orders. The ratings also draw comfort from the company's healthy financial risk profile characterised by robust profitability metrics, heathy return indicators coupled with a comfortable capital structure supported by controlled external debt and an adequate net worth base and the consequent strong coverage indicators.

The ratings, however, remain constrained by NGL's moderate scale of operation and the high working capital intensity of business emanating from high inventory holding and relatively slow receivable cycle. The ratings also remain constrained by the vulnerability of the company's profitability to volatility in raw material prices and foreign exchange rates, and high product concentration risk, given its sole presence in the animal API business.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that NGL will continue to benefit from the extensive experience of its management and its established relationships with a diversified customer base.

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 company's directors, Mr. Rajesh Lawande and Mr. Rahul Nachane, have extensive experience of over two decades in the manufacturing of animal health APIs.

Healthy profitability and return indicators – As NGL's products are high value added in nature, its profitability remained healthy as reflected by its operating profit margin (OPM) of 21.09% and a net profit margin (NPM) of 13.14% in FY2019, which stood improved against the previous year's profitability indicators due to the spreading of fixed costs over a higher revenue base. Given the healthy profitability levels, the return indicators remained strong as reflected by an RoCE of 27.69% in FY2019 against 24.07% in FY2018.

Comfortable capital structure and strong debt coverage indicators – NGL's capital structure has historically remained comfortable with gearing of less than 0.50 time as on the last five fiscal-ends and stood at 0.30 time as on September 30, 2019. The debt coverage indicators remained strong as reflected by an interest coverage of 12.68 times, TD/OPBDITA of 0.84 time and NCA/TD of 95% as on March 31, 2019 and an interest coverage of 13.18 times, TD/OPBDITA of 1.01 time and NCA/TD of 72% as on September 30, 2019.

Established and diversified customer base – NGL's customer base is diversified with the top five customers accounting for 23% of the total sales in FY2019 and 24% in H1 FY2020 (35% in FY2018). The company sells its products to animal health formulation manufacturers in the domestic and overseas markets and has developed healthy relationships with them over the last two decades, which resulted in several repeat orders.

Credit challenges

High working capital intensity of operations – NGL's working capital intensity has historically remained high due to high receivables and elevated inventory levels and stood at 31% in FY2019. The company's inventory levels generally remain on the higher side (63 days as on March 31, 2019), owing to a sizeable WIP inventory (given that the production cycle varies from a few days for basic products up to eight weeks). The receivables also remained high and stood at 80 days as on March 31, 2019, as the company provides a clean credit of 60 to 90 days to its customers.

High product concentration risk with sole presence in animal health API – NGL primarily manufactures various veterinary pharmaceutical products, primarily APIs which account for approximately 80-90% of the company's total annual sales, while the rest are derived from intermediates and formulations. Despite having more than 30 APIs/intermediates/formulations in the product portfolio, NGL's revenues have remained concentrated among three products (namely Diminazene, Clorsulon and Buparavaquone) - which accounted for ~47% of the total sales in FY2019 and 53% in H1 FY2020.

Vulnerability of profitability to volatility in raw material prices and forex rates – NGL's major raw materials are intermediates (N-2 and N-3 level intermediates) and solvents used to manufacture the APIs. Given the elevated inventory levels, the company's operating profitability remains exposed to the adverse movements in raw material prices that cannot be adequately passed on to the customers. The company derives ~75-80% of its sales from exports, exposing it to foreign exchange risks. However, imports of ~15-20% of its total purchases provide a natural hedge to an extent. It tries to mitigate the forex risk by booking forward contracts of varying durations, to cover a part of its export receivables.

Liquidity position: Adequate

NGL's liquidity position is **adequate** as reflected by continued positive cash flows in FY2019 owing to the improvement in OI supported by strong profitability. Additionally, NGL has a free cash and bank balance (including liquid investments) of Rs. 16.94 crore as on September 30, 2019. Its monthly utilisation of the fund-based working capital averaged at 49% of the sanctioned limit and non-fund based working capital averaged at 32% of the sanctioned limit during the 12-month period that ended on September 30, 2019, providing adequate cushion to support the liquidity.

Rating sensitivities

Positive triggers – The ratings are likely to upgrade if NGL shows a significant ramp up in its scale of operations while improving its profitability, leading to significant increase in its net worth and improvement in the working capital cycle by curtailing its receivable and inventory levels.

Negative triggers – Lower-than-expected sales growth, coupled with delay in validation process of new installed capacity leading to lower-than-expected profitability or any unanticipated debt-funded capex. A moderation in debt coverage indicators or any further stretch in the working capital cycle will put negative pressure on NGL's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	No
Consolidation/Standalone	Consolidated financials of NGL and MPPL

About the company

NGL is a veterinary pharmaceutical raw material manufacturer, and its products find usage in the animal health industry. The company, incorporated in 1981 by Mr. Narayan Lawande, is listed on the Bombay Stock Exchange. NGL provides a range of products catering to the formulations for farm animals with Africa as its largest end-user market. It also has a strong and growing international presence in Latin America, Asia and Europe. NGL's manufacturing facilities are located in Maharashtra at Pawane (Navi Mumbai) and Tarapur. The company's manufacturing facilities are good manufacturing practice (GMP)-certified from the Maharashtra State Food and Drug Administration (FDA).

NGL acquired a 100% stake of Macrotech Polychem Private Limited (MPPL) in May 2019, making MPPL a wholly-owned subsidiary. MPPL's plant is located at Tarapur, near NGL's plant, and is involved in the manufacture of pharmaceutical intermediates.

In FY2019, NGL reported a net profit of Rs. 20.13 crore on an OI of Rs. 153.18 crore compared to a net profit of Rs. 12.59 crore on an OI of Rs. 113.66 crore in the previous year. On a provisional basis, NGL reported an OI of Rs. 80.29 crore and a net profit of Rs. 7.38 crore in H1 FY2020.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	H1 FY2020 (Provisional)
Operating Income (Rs. crore)	113.66	153.18	80.29
PAT (Rs. crore)	12.59	20.13	7.38
OPBDIT/OI (%)	18.96%	21.09%	18.69%
RoCE (%)	24.07%	27.69%	17.96%
Total Outside Liabilities/Tangible Net Worth (times)	0.81	0.55	0.62
Total Debt/OPBDIT (times)	1.24	0.84	1.01
Interest Coverage (times)	12.20	12.68	13.18
DSCR	4.81	5.08	3.92

Source: NGL; FY2018 and FY2019 numbers are on standalone basis whereas H1 FY2020 numbers are on consolidated basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating 01-Jan-2020	Earlier Rating 3-Apr-2019	FY2019 14-Jan-2019	FY2018 05-Sep-2017	FY2017 12-Oct-2016
1	Term Loans	Long Term	15.30	16.13*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)
2	Fund-based Cash Credit	Long Term	18.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)
3	Non-fund Based Letter of Credit	Short Term	4.80	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4	Non-fund Based PSR Limit	Short Term	4.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+

**O/s as on September 30, 2019; additional term loan availed*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Term Loans	FY2017	9.50%	FY2023	15.30	[ICRA]BBB+(Stable)
NA	Long-term Fund-based Cash Credit	NA	NA	NA	18.50	[ICRA]BBB+(Stable)
NA	Short-term Non-fund Based Letter of Credit	NA	NA	NA	4.80	[ICRA]A2
NA	Short-term Non-fund Based PSR Limit	NA	NA	NA	4.00	[ICRA]A2

Source: NGL

Annexure-2: List of entities considered for consolidated analysis

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

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