NGL Fine-Chem Limited

January 14, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loans	17.80	17.50	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Long-term Fund-based Cash Credit	16.00	16.30	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Short-term Non-fund Based Letter of Credit	4.80	4.80	[ICRA]A2; Upgraded from [ICRA]A3+
Short-term Non-fund Based PSR Limit	4.00	4.00	[ICRA]A2; Upgraded from [ICRA]A3+
Total	**42.60**	**42.60**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings considers the healthy scale up of NGL Fine-Chem Limited's (NGL) revenues in FY2018 and H1 FY2019, and its robust profitability levels and return indicators, leading to strong coverage indicators over the years. The capital structure remains at a comfortable level, with low reliance on external debt and an adequate net worth base. The ratings continue to draw comfort from the extensive experience of the management and the company's long track record of operations in the manufacturing of animal health active pharmaceutical ingredients (API) for nearly four decades. Further, the ratings consider its established customer base with low customer concentration risk. The ratings also note NGL's ongoing capacity expansion project, which is into an advanced stage of completion and expected to aid the revenue growth in the near to medium term.

However, the ratings remain constrained by the company's high working capital intensity of operations due to high inventory and receivable levels, vulnerability of its profitability to volatility in raw material prices and foreign exchange rates, and high product concentration risk.

Outlook: Stable

ICRA expects NGL to benefit from the extensive experience of its management in the animal health API manufacturing business and the ongoing capacity expansion plan, which is expected to drive revenue growth in the future. The outlook may be revised to Positive if sustained growth in the revenues with improved profitability, or improvement in the working capital indicators strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, or if any major unanticipated debt-funded capital expenditure, or a stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of management; long track record of operations in animal health API manufacture - 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 scale up of operations; robust profitability and return indicators - NGL's operating income (OI) witnessed a 14% growth in FY2018 and stood at Rs. 113.66 crore against Rs. 99.72 crore in FY2017, on the back of a 4% growth in sales volume and an 11% growth in average sales realisations. The company's profitability remained robust as reflected by its operating profit margin (OPM) of 18.96% and net profit margin (NPM) of 11.07% in FY2018. Given the healthy profitability levels, the return indicators remained strong as reflected by an RoCE of 23.98% in FY2018. The company's revenues grew further in H1 FY2019 and stood at Rs. 74.94 crore, reflecting an annualised growth of 37%, while the profitability remained strong with the OPM at 17.99% and NPM at 12.33%.

Comfortable capital structure; strong debt coverage indicators - NGL's capital structure has historically remained comfortable with gearing of less than 0.50 time as on the last four fiscal ends, and stood at 0.37 time as on September 30, 2018. The debt coverage indicators remained strong as reflected by the interest coverage of 12.20 times, TD/OPBDIT of 1.24 times, TOL/TNW of 0.79 time and NCA/TD of 80% as on March 31, 2018.

Established and diversified customer base - NGL's customer base is diversified with the top five customers accounting for 35% of the total sales in FY2018 and 31% in H1 FY2019 (39% in FY2017). 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 result 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 30% in FY2018. The company's inventory levels generally remain on a higher side (76 days as on March 31, 2018), 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 89 days as on March 31, 2018, as the company provides a clean credit of 90 to 120 days to its customers.

High product concentration risk - 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 ~45% of the total sales in FY2018 and 44% in H1 FY2019.

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 for manufacturing the APIs. Given the elevated inventory levels, the company's operating profitability remains exposed to the adverse movements in the raw materials prices that cannot be adequately passed onto the customers. The company derives ~75-80% of its sales from exports, exposing it to foreign exchange risks. However, the company's imports of ~15-20% of its total purchases provide a natural hedge to an extent. The company tries to mitigate the forex risk by booking forward contracts of varying durations, to cover a part of its export receivables.

Liquidity position

The company's cash flow from operations remained positive in FY2018 due to the increased OI, healthy profitability, and lower incremental working capital requirements (owing to faster debtor realisations). The company had a cash and bank balance (including liquid investments) of Rs. 10.02 crore as on March 31, 2018 and Rs. 10.15 crore as on September 30, 2018. The company's monthly utilisation of the working capital limits averaged at 52% of the drawing power during the 13-month period ended December 31, 2018, providing adequate cushion to the liquidity. The company's term loan repayments for the next three years remain modest at Rs. 3.04 crore in FY2019, Rs. 3.33 crore in FY2020 and Rs. 3.00 crore in FY2021.

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	Standalone

About the company

NGL is a veterinary pharmaceutical raw material manufacturer, and its products find usage in the animal health industry. The company was incorporated in 1981 by Mr. Narayan Lawande. The company is listed on the Bombay Stock Exchange, Ahmedabad Stock Exchange and Madras Stock Exchange since 1994. 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).

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	6M FY2019 (Provisional)
Operating Income (Rs. crore)	99.72	113.66	74.94
PAT (Rs. crore)	14.89	12.59	9.24
OPBDIT/OI (%)	25.55%	18.96%	17.99%
RoCE (%)	38.61%	23.98%	25.54%
Total Debt/TNW (times)	0.38	0.37	0.37
Total Debt/OPBDIT (times)	0.90	1.24	1.11
Interest Coverage (times)	25.38	12.20	10.73

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 October 2016	Date & Rating in FY2016 August 2015
1	Term Loans	Long Term	17.50	13.31*	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
2	Fund-based Cash Credit	Long Term	16.30	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
3	Non-fund Based Letter of Credit	Short Term	4.80	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Non-fund Based PSR Limit	Short Term	4.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

**O/s as on September 30, 2018*

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Term Loan 1	FY2017	10.50%	FY2023	15.00	[ICRA]BBB+(Stable)
NA	Long-term Term Loan 2	FY2018	NA	FY2023	2.50	[ICRA]BBB+(Stable)
NA	Long-term Fund-based Cash Credit	NA	NA	NA	16.30	[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
Not applicable		

ANALYST CONTACTS

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Tushar Bharambe
+91 22 6169 3350
tushar.bharambe@icraindia.com

Piyush Kherdikar
+91 22 6114 3359
piyush.kherdikar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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