October 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	15.30	15.30	[ICRA]BBB+(Stable); Reaffirmed
Long-term Fund-based- Cash Credit	18.50	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 domestic and international markets, along with a well-established clientele. The ratings draw comfort from the company's healthy financial risk profile characterised by robust profitability metrics, healthy return indicators, coupled with a comfortable capital structure, and the consequent strong coverage indicators.

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

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that NGL will continue to benefit from 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 the company's products are high value added in nature, its operating profit margin remained healthy over 18% during the period under review. However, it declined to 14.96% in FY2020 from 23.37% in FY2019 due to increased overheads and shortage of raw material, procured from China. While, NGL incurred overheads on the validation process of four new products to be manufactured in the new unit, revenue inflow from the unit did not commence during the year. The net profit margin declined to 5.50% in FY2020 from 13.14% in FY2019, in line with operating profit margin. Given the reduction in profits in FY2020 and increase in capital employed, the return indicators moderated to 11.83% from 27.61% in the previous fiscal. The OPM improved substantially in Q1FY2021 and stood at 31.75% due to increased share of high margin products in total sales and reduced overhead expenses following nation-wide the lockdown implemented by the Government of India.

Comfortable capital structure and strong debt coverage indicators – NGL's capital structure has historically remained comfortable on the back of healthy accretion to the net worth. The gearing stood at 0.29 time as on March 31, 2020 (0.29 time as on March 31, 2019). The debt coverage indicators moderated in FY2019 with decline in profit margin. However, the same remained healthy as reflected by interest coverage of 8.64 times (14.05 times in FY2019), TD/OPBDITA of 1.24 times (0.76 time in FY2019) and NCA/TD of 60% (95% in FY2019) in FY2020. The gearing stood at 0.24 time as on June 30, 2020.

Established and diversified customer base – The company derives 20-25% of its sales from the domestic market and the remaining from export sales to countries in Europe, Asia Pacific, Middle East and Latin America. NGL's customer base is diversified with the top five customers accounting for ~25% of total sales in FY2019 and FY2020 respectively. The company sells its products to animal health formulation manufacturers in the domestic and overseas markets. It has developed healthy relationships with the customers over the last two decades, which result in several repeat orders.

Credit challenges

Modest scale of operations – NGL's scale of operations has remained modest during the period under review. Its operating income declined marginally to Rs. 151.69 crore from Rs. 153.17 crore in FY2019 on account of loss of sale of certain products due to scarcity of raw material supply from China and rescheduling of some orders to Q1FY2021 following the Covid-19 pandemic related challenges faced by the company in March 2020. It reported an OI of Rs. 42.37 crore in Q1 FY2021. The company's ability to complete validation of all the four products and generate sales from the new unit will remain critical to support its medium-term revenue growth.

High working capital intensity of operations – NGL's working capital intensity has historically remained high due to increased receivables and elevated inventory levels, and stood at 28% in FY2020 (31% in FY2019). The company's inventory levels generally remain on a higher side (88 days in FY2020), owing to a sizeable WIP inventory (given that the production cycle varies from a few days for basic products up to eight weeks) and high finished goods inventory owing to delayed shipment in March 2020. The receivables remained moderately high at 64 days in FY2020, as it 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 APIs, which account for ~90% of the total annual sales, while the rest are derived from intermediates, formulations and human APIs. Despite having more than 22 products in the product portfolio, the company's revenues have remained concentrated with the top three products (namely Diminazene, Clorsulon and Buparavaquone) which contributed ~48% of its total sales in FY2019 and 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 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. NGL derives ~75-80% of its sales from exports which exposes it to foreign exchange risks. However, it imports ~15-20% of its total purchases, which provides 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: Adequate

NGL's liquidity position is **adequate** due to healthy cash flows from operations during the period under review. The management does not have any significant capex plans and will incur only maintenance capex of Rs.5.00-7.00 crore in the medium term. ICRA notes that the company availed moratorium of six months, extended by the RBI, as a cautionary measure during uncertainty. The company has repayment obligation of Rs. 2.50 crore to be repaid in FY2021 (after adjusting for moratorium) and Rs. 5.39 crore in FY2022.

The company had free cash and bank balance (including liquid investments) of Rs. 13.60 crore as on March 31, 2020. Its monthly utilisation of the fund-based working capital averaged at 43% of the sanctioned fund base limit and non-fund based working capital averaged at 10% of the sanctioned limit during the 12-month period endingAugust 31, 2020, providing adequate cushion to the liquidity.

Rating sensitivities

Positive triggers – The ratings are likely to be upgraded if NGL shows significant ramp up in scale of operations and improvement in its profit margins on a sustained basis. Strengthening of tangible net owing to healthy accruals will also remain critical for a rating upgrade.

Negative triggers - Moderation in operating profit due to delay in validation process or under-utilisation of the new unit could exert negative pressure on NGL's rating. Any unanticipated debt-funded capex or any further stretch in working capital cycle, significantly impacting the credit metrics of the company, could result in a rating downgrade.

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 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 has a strong and growing international presence in Latin America, Asia and Europe. Its 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 100% stake of Macrotech Polychem Private Limited (MPPL) in May 2019, making MPPL a wholly owned subsidiary of NGL. MPPL's plant is located at Tarapur, nearby to NGL's plant and is involved in the manufacturing pharmaceutical intermediates.

In FY2020, NGL (consolidated) reported a net profit of Rs. 8.34 crore on an OI of Rs. 151.69 crore compared to a net profit of Rs. 20.13 crore on an OI of Rs. 153.17 crore in the previous year. On a provisional basis, NGL reported a consolidated OI of Rs. 42.37 crore and a net profit of Rs. 9.39 crore in Q1 FY2021.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	Q1 FY2021 (Provisional)
Operating Income (Rs. crore)	153.17	151.69	42.37
PAT (Rs. crore)	20.13	8.34	9.39
OPBDIT/OI (%)	23.37%	14.96%	31.75%
PAT/OI (%)	13.14%	5.50%	22.17%
Total Outside Liabilities/Tangible Net Worth (times)	0.54	0.55	-
Total Debt/OPBDIT (times)	0.76	1.24	0.49
Interest Coverage (times)	14.05	8.64	22.35

Source: NGL Fine-Chem Limited

Status of non-cooperation with previous CRA: Not applicableAny other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating 1-Oct-2020	FY2020 1-Jan-2020	3-Apr-2019	FY2019 14-Jan-2019	FY2018 05-Sep-2017
1	Term Loans	Long-Term	15.30	13.63*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Fund-based Cash Credit	Long-Term	18.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
3	Non-fund Based Letter of Credit	Short-Term	4.80	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+
4	Non-fund Based PSR Limit	Short-Term	4.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+

**Outstanding as on March 31, 2020*

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 click here

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	9.60%	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 Fine-Chem Limited

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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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.

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