



NACL Industries Limited

Ref: NACL/SE/2022-23

August 08, 2022

1) BSE Limited

Phiroze Jeejeebhoy Towers
Dalal Street,
Fort, Mumbai,
Mumbai – 400001
Stock Code: 524709

2) National Stock Exchange of India Ltd

Exchange Plaza, 5th Floor
Plot No.C/1 G Block,
Bandra –Kurla Complex, Bandra (E)
Mumbai-400051.
Symbol: NACLIND

Dear Sir,

Sub: Intimation of Credit Rating — reg.

Pursuant to the Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform that, CRISIL has assigned the credit rating to the Long Term & Short Term Bank Facilities vide its letter dated August 08, 2022. The details of the same are given herein below:

| Facility | Rating Type | Rating Action | Rated Amount |
|-----------|-------------------|-------------------------------|--------------|
| Bank Loan | Long Term Rating | CRISIL A/Stable (Assigned) | ₹ 600 crores |
| | Short Term Rating | CRISIL A1 (Assigned) | |

Kindly take the same into records.

Thanking you,

for **NACL Industries Limited**

Satish Kumar Subudhi

Vice President -Legal & Company Secretary

Encl: As above



Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

August 08, 2022 | Mumbai

NACL Industries Limited

'CRISIL A/Stable/CRISIL A1' assigned to Bank Debt

Rating Action

| | |
|----------------------------------|----------------------------|
| Total Bank Loan Facilities Rated | Rs.600 Crore |
| Long Term Rating | CRISIL A/Stable (Assigned) |
| Short Term Rating | CRISIL A1 (Assigned) |

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL A/Stable/CRISIL A1**' ratings to the bank facilities of NACL Industries Limited (NACL; part of the NACL group).

The ratings reflect the strong market presence of NACL, supported by the extensive experience of the management team, well-established clientele, geographical diversification in revenue and above-average financial risk profile. These strengths are partially offset by large working capital requirement, exposure to competition and susceptibility to regulatory changes and seasonality inherent in the agrochemicals sector.

Analytical approach

CRISIL Ratings has combined the business and financial risk profiles of NACL and all its subsidiaries and associate companies. This is because all these entities, collectively referred to as the NACL group, are in the same line of business and have common promoters and strong business and financial linkages. Also, NACL holds a 26% stake in Nasense Labs Pvt Ltd and has been consolidated accordingly.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market presence:** Supported by an experienced management team, NACL has built a strong three-decade-long market presence in the agrochemicals segment. The management has established healthy relationships with customers, which are well diversified across geographies and include established players in India and export markets, such as Syngenta Asia Pacific Pte Ltd, Saraswati Agro Chemicals India Pvt Ltd and Nissan Chemical Corporation. NACL sells a wide range of insecticides, fungicides, herbicides and plant growth regulators. Ability to develop products to cater to upcoming demand could enhance growth over the medium term. The company will

continue to benefit from the experience and expertise of its promoters and management and leverage its customer relationships.

- **Above-average financial risk profile:** The above-average financial risk profile of NACL is reflected in its moderate capital structure and comfortable debt protection metrics. Gearing is estimated at less than 1.1 times and total outstanding liabilities to adjusted networth ratio at less than 2.14 times as on March 31, 2022. Debt protection metrics were comfortable, indicated by interest coverage and net cash accrual to total debt ratios estimated at 5.4 times and 0.17 time, respectively, in fiscal 2022.

Weaknesses:

- **Large working capital requirement:** Operations are working capital intensive, as indicated by gross current assets of 210-240 over the four fiscals through 2022. The company offers considerable credit in the domestic formulations business and has to maintain adequate inventory on account of the number of stock keeping units, import of raw materials and seasonality in operations. Receivables are 100-120 days and inventory 70-90 days on average. The incremental working capital requirement is managed efficiently through a mix of internal accrual and bank borrowings. Nevertheless, operations will remain working capital intensive, especially in the biological segment, on account of the nature of the industry; prudent working capital management will be critical.
- **Exposure to competition, regulatory changes and seasonality in the agrochemicals sector:** The domestic agrochemical formulations industry has a large number of organised players with regional presence. As NACL is into generic molecules, it faces intense competition from organised as well as unorganised players in the domestic market. Also, the domestic agrochemicals sector is dependent on monsoon and the level of farm income. The fortunes of the sector are, therefore, linked to the quantum, timing and distribution of rainfall in a year, exposing the players' revenue to seasonal trends. Besides, surplus or inadequate rainfall could hit the profitability of players and lead to build-up in the working capital requirement. The business performance of NACL, like that of other agrochemical manufacturers, may also be impacted by regulatory changes, such as export and import policies, registration policies and product and environment safety requirements in India and abroad.

Liquidity: Strong

Bank limit utilisation averaged 60% over the 12 months through June 2022. Cash accrual, expected at over Rs 90 crore per annum, will sufficiently cover yearly debt obligation of Rs 29 crore over the medium term. Cash and bank balance was healthy at around Rs 70 crore and current ratio was moderate at 1.3 times on March 31, 2022.

Outlook: Stable

NACL will continue to benefit from the promoters' extensive experience and healthy relationships with clients.

Rating Sensitivity Factors

Upward factors

- Steady increase in revenue and sustenance of the operating margin at 9-10% leading to higher cash accrual
- Efficient working capital management leading to material improvement in the capital structure and debt protection metrics
- Stabilisation of operations at the Dahej plant (NACL Spec-chem Ltd)

Downward factors

- Sustained decline in revenue, with profitability at below 7%

- Stretched working capital cycle leading to material increase in debt or debtor write-offs, weakening the financial risk profile

About the Group

NACL, incorporated in 1986, manufactures and exports crop protection technical (active ingredient) and formulations. It manufactures all kinds of pesticides, insecticides, herbicides, fungicides and other plant growth chemicals. The company's formulation business is mainly in the Indian market, and it sells through its large retail dealer network spread across India; it also has a range of branded formulations. The company has two manufacturing units at Srikakulam and Ethakota in Andhra Pradesh and one research and development centre in Telangana. Ms K Lakshmi Raju is the promoter of the company, and operations are managed by M Pavan Kumar.

NACL Spec-chem Ltd is undertaking a greenfield project at Dahej, Gujarat. The unit is being set up with an installed capacity of 6,000 tonne per annum for manufacturing technical and intermediate for domestic as well as export markets. The total project cost of Rs 202 crore is funded via a debt-equity mix of 3.2:1.

Key financial indicators (Consolidated)

| As on/for the period ended March 31 | Unit | 2022 | 2021 |
|-------------------------------------|----------|------|------|
| Operating income | Rs.Crore | 1638 | 1184 |
| Reported profit after tax (PAT) | Rs.Crore | 73 | 51 |
| PAT margin | % | 4.5 | 4.3 |
| Adjusted debt/adjusted networkth | Times | 1.1 | 0.48 |
| Interest coverage | Times | 5.47 | 4.32 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure – Details of instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity levels | Rating assigned with outlook |
|------|------------------------------------|-------------------|-----------------|---------------|-----------------------|-------------------|------------------------------|
| NA | Cash Credit | NA | NA | NA | 118 | NA | CRISIL A/Stable |
| NA | Non-Fund Based Limit | NA | NA | NA | 204 | NA | CRISIL A1 |
| NA | Packing Credit in Foreign Currency | NA | NA | NA | 77 | NA | CRISIL A1 |
| NA | Term Loan | NA | NA | Mar-29 | 36 | NA | CRISIL A/Stable |
| NA | Working Capital Demand Loan | NA | NA | NA | 165 | NA | CRISIL A/Stable |

Annexure – List of Entities Consolidated

| Names of entities consolidated | Extent of consolidation | Rationale for consolidation |
|--|-------------------------|--|
| LR Research Laboratories Pvt Ltd | Full | Same line of business, common promoters and strong business and financial linkages. NACL holds |
| Nagarjuna Agrichem (Australia) Pvt Ltd | Full | |
| NACL Spec-Chem Ltd | Full | |

| | | |
|------------------------|------|---|
| NACL Multichem Pvt Ltd | Full | a 26% stake in Nasense Labs Pvt Ltd and has been consolidated accordingly |
| Nasense Labs Pvt Ltd | 26% | |

Annexure - Rating History for last 3 Years

| Instrument | Current | | | 2022 (History) | | 2021 | | 2020 | | 2019 | | Start of 2019 |
|---------------------------|---------|--------------------|-----------------------------|----------------|--------|------|--------|------|--------|------|--------|---------------|
| | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT/ST | 396.0 | CRISIL A1 / CRISIL A/Stable | | -- | | -- | | -- | | -- | -- |
| Non-Fund Based Facilities | ST | 204.0 | CRISIL A1 | | -- | | -- | | -- | | -- | -- |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|------------------------------------|-------------------|-----------------------------------|-----------------|
| Cash Credit | 10 | Bandhan Bank Limited | CRISIL A/Stable |
| Cash Credit | 12 | SBM Bank (India) Limited | CRISIL A/Stable |
| Cash Credit | 1 | IndusInd Bank Limited | CRISIL A/Stable |
| Cash Credit | 10 | The Karnataka Bank Limited | CRISIL A/Stable |
| Cash Credit | 26 | HDFC Bank Limited | CRISIL A/Stable |
| Cash Credit | 14 | Kotak Mahindra Bank Limited | CRISIL A/Stable |
| Cash Credit | 35 | SVC Co-Operative Bank Limited | CRISIL A/Stable |
| Cash Credit | 10 | RBL Bank Limited | CRISIL A/Stable |
| Non-Fund Based Limit | 25 | HDFC Bank Limited | CRISIL A1 |
| Non-Fund Based Limit | 20 | Axis Bank Limited | CRISIL A1 |
| Non-Fund Based Limit | 15 | Bandhan Bank Limited | CRISIL A1 |
| Non-Fund Based Limit | 55 | Bank of Bahrain and Kuwait B.S.C. | CRISIL A1 |
| Non-Fund Based Limit | 30 | SBM Bank (India) Limited | CRISIL A1 |
| Non-Fund Based Limit | 30 | YES Bank Limited | CRISIL A1 |
| Non-Fund Based Limit | 29 | IndusInd Bank Limited | CRISIL A1 |
| Packing Credit in Foreign Currency | 14 | YES Bank Limited | CRISIL A1 |
| Packing Credit in Foreign Currency | 15 | Axis Bank Limited | CRISIL A1 |

| | | | |
|------------------------------------|----|-----------------------------------|-----------------|
| Packing Credit in Foreign Currency | 34 | Shinhan Bank | CRISIL A1 |
| Packing Credit in Foreign Currency | 14 | RBL Bank Limited | CRISIL A1 |
| Term Loan | 36 | RBL Bank Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 5 | Bank of Bahrain and Kuwait B.S.C. | CRISIL A/Stable |
| Working Capital Demand Loan | 10 | IndusInd Bank Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 21 | Kotak Mahindra Bank Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 39 | HDFC Bank Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 6 | RBL Bank Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 15 | Axis Bank Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 15 | Bandhan Bank Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 18 | SBM Bank (India) Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 21 | YES Bank Limited | CRISIL A/Stable |
| Working Capital Demand Loan | 15 | The Karnataka Bank Limited | CRISIL A/Stable |

This Annexure has been updated on 08-Aug-2022 in line with the lender-wise facility details as on 05-Aug-2022 received from the rated entity.

Criteria Details

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|--|
| Links to related criteria |
| Rating criteria for manufacturing and service sector companies |
| CRISILs Bank Loan Ratings - process, scale and default recognition |
| CRISILs Approach to Financial Ratios |
| CRISILs Criteria for Consolidation |

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