

NACL Industries Limited

December 11, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	224.50	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Short term Bank Facilities	113.00	CARE A2 [A Two]	Reaffirmed
Total facilities	337.50 (Rs. Three Hundred crore Thirty Seven Lakhs and Fifty Thousand only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NACL Industries Limited continuous to derive strength from established track record of the company in the pesticide business, experienced management, diversified product range with presence across the domestic and international markets, improved financial performance during FY18 (refers to the period April 01 to March 31) marked by increase in the total operating income and improvement in the operational performance and successful introduction of new products. The ratings, however, are constrained by decline in the profitability margins during FY18 & H1FY19, deterioration in capital structure, dependence upon monsoon and climatic conditions, exposure to foreign exchange fluctuation risk and working capital intensive nature of the operation.

The ability of the company to scale up its operations, introduce new products in both technical and formulations segments, improve its profitability margins and manage its working capital efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and experienced management in pesticide industry

NACL has been engaged in the operation of manufacturing and selling of pesticides for more than two decades. Mr V Vijaya Shankar, Managing Director (MD) of the company has vast experience in various chemical industries and extensive experience in Fertilizer and Automobile sectors over the last three decades. The MD is supported by a team of qualified and experienced professionals.

Improved operational performance during FY18

The company witnessed better capacity utilization in the technical and formulation divisions over the last four years due to unfavourable and volatile climatic conditions. With the better monsoon, the capacity utilization of the company has improved to 77.99% during FY17 and further improved to 80.40% in the technical division and remained stable at 100% in the formulation division during FY18.

Diversified product range and geographically low revenue concentration risk both from domestic and international market:

The company's products include the entire range of pesticides such as Insecticides, Fungicides and Herbicides that cater to all the pest problems of major crops grown in India. The company's product portfolio includes over 55 brands with a strong network of about 12,500 dealers across the country. In the total operating income the domestic sales to export sales is 85:15.

Growth in total operating income albeit marginal decline in profitability margins

The total operating income of the company grew by ~15% i.e. from Rs.746.18 crore in FY17 to Rs.861.68 crore in FY18, primarily on account of better monsoon compared to the last two years. The total operating income of the company grew by 4.2% from Rs.1495.43 crore in H1FY18 to Rs.516.31 crore in H1FY19 primarily on account of better monsoon during the first two quarter resulting in high sales coupled with additional income from launch of a new products in domestic market.

Moderate liquidity profile:

Liquidity profile of the company stood moderate during FY18 represented by current ratio of 1.22x (FY17: 1.24x). The cash and bank balance as on March 31, 2018 stood at Rs. 8.27 crores and further the working capital utilization has been

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

moderate during the 12 months period ended September 2018 with an average monthly utilization of 65% thus providing the sufficient cushion to meet the term loan debt obligation during FY19.

Key Rating Weaknesses

Decline in profitability margins

The PBILDT margin of the company declined from 9.29% in FY17 to 7.50% in FY18 mainly due to increase in raw material costs which is being sourced from China. The share of raw material cost to TOI has increased from 67% in FY17 to 71% in FY18. The increase in raw material cost is on account of closing down of special chemical manufacturing facilities in China by its pollution control board leading to substantial demand supply gap. In line with decline in the PBILDT margin, The PAT margin of the company also declined from 1.45% in FY17 to 1.40% in FY18 despite decline in the depreciation costs of the company during FY18. During H1FY19, the company has achieved total operating income of Rs. 516.31 along with PBILDT margin and PAT margin of 6.82% and 1.24% respectively.

Deteriorated capital structure and other debt service coverage indicators

The overall gearing (including acceptances) of the company has deteriorated from 1.22x as on March 31, 2017 to 1.38x as on March 31, 2018 on account of increased working capital requirements of the company despite scheduled repayment of term debt and accretion of profits to networth. The debt coverage i.e. total debt/GCA deteriorated from 4.10x in FY17 to 7.82x in FY18. The interest coverage ratio of the company, however, has also improved from 1.83x in FY17 to 1.93x in FY18. The decline in TD/GCA is primarily on account of decline in the GCA by 42% in FY18 as against FY17.

Highly dependent upon monsoon and climatic conditions

The pesticide industry derives its sales from the agriculture sector which is highly dependent upon monsoons as well as incidence of fungal/pest attack on crops. The large temporal and spatial variation in the rainfall during the season had adverse impact on the productivity and production of major kharif crops over the country except rice.

Exposure to foreign exchange fluctuation risk

The company is engaged in export and import transactions which subjects it to risk associated with volatility in the exchange rates. On account of foreign exchange fluctuation, the company has incurred a net forex loss of about Rs. 1.00 crore during FY18.

Working capital intensive nature of the industry:

The industry is characterized by high inventory periods and debtor periods on account of the seasonality in sales. Further the nature of the industry is such that it necessitates stocking up the inventory during Q4 of the financial year in order to meet the upcoming demand as the monsoon generally strike during Q1 and continue till Q2 of the financial year. The working capital cycle continue to remain elongated. The average operating cycle for the company was at 136 days in FY18, primarily on account of high inventory holding period and collection period. Further, the creditor's period has increased from 66 days in FY17 to 73 days in FY18. However, the working capital cycle remains elongated and necessitates the reliance on the working capital borrowings.

Analytical approach: Standalone

Applicable criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Pesticide Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

NACL Industries Limited (erstwhile Nagarjuna Agrichem Ltd; NACL) was incorporated in November 1986 and is engaged in manufacturing of pesticides (viz. Herbicides, Insecticides, Fungicides); both technical and formulations. The company has presence both in domestic as well as exports market with major export destinations being Japan, USA, Australia, Switzerland, Belgium etc. The company has already registered few brand products in African countries i.e Myanmar, Ethiopia and Zambia and further it is in process of registering few more brands. NACL accessed primary capital market during 1993-94 in BSE and NSE on April 07, 2017. The company is promoted by Hyderabad-based Nagarjuna Group which has interests in Fertilizers, Power Generation, Oil refinery and Construction.

NACL is honoured with the "India's Most Trusted Brand and Best Company of the Year-2017" by International Brand Consulting (IBC), USA. This award is a distinctive recognition for a company recognized as, "BEST COMPANY" in its industry category based on current year market standing, innovation, leadership, governance, CSR and other such factors. Further, Srikakulam Technical unit and Ethakota Formulation unit have also been awarded with the "Best Management Award" by the Government of Andhra Pradesh for Management Practices for the year 2017. Apart from the above,

Srikakulam Plant received “Suraksha Puraskar” Award by the National Safety Council of India for the year 2017 for its best Safety Practices. The company’s installed capacity in technical division is 7,500 metric tons/kilo liters and 37,800 metric tons/kilo liters in formulation division.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	746.18	861.68
PBILDT	69.30	64.66
PAT	33.12	12.05
Overall gearing (times)	1.22	1.38
PBILDT Interest coverage (times)	1.83	1.93
PBIT Interest Coverage (times)	1.08	1.34

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Dec 2021	49.50	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	113.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	175.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	49.50	CARE A-; Stable	-	1)CARE A-; Stable (03-Oct-17)	1)CARE BBB+; Positive (16-Mar-17) 2)CARE BBB+ (10-Oct-16)	1)CARE BBB+ (04-Nov-15)
2.	Non-fund-based - ST-BG/LC	ST	113.00	CARE A2	-	1)CARE A2 (03-Oct-17)	1)CARE A3+ (16-Mar-17) 2)CARE A3+ (10-Oct-16)	1)CARE A3+ (04-Nov-15)
3.	Fund-based - LT-Cash Credit	LT	175.00	CARE A-; Stable	-	1)CARE A-; Stable (03-Oct-17)	1)CARE BBB+; Positive (16-Mar-17) 2)CARE BBB+ (10-Oct-16)	1)CARE BBB+ (04-Nov-15)

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