

## Nagarjuna Agrichem Ltd

March 16, 2017

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	227.78 (enhanced from 140.78)	<b>CARE BBB+; Positive (Triple B Plus; Outlook: Positive)</b>	Reaffirmed
Short-term Bank Facilities	113 (enhanced from 90.00)	<b>CARE A3+ (A Three Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>340.78 (Rupees Three hundred and forty crore and seventy eight lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Nagarjuna Agrichem Limited continue 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 and satisfactory operational performance. The ratings also factor in receipt of pending insurance claim leading to easement of liquidity, improvement in the profitability margins during 9MFY17 (refers to the period April 01 to December 31) and improvement in the financial risk profile marked by improvement in the overall gearing and debt coverage indicators as on December 31, 2016.

The ratings, however, are constrained by decline in the operating income during FY16 on account of unfavorable climatic conditions, 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.

The outlook is 'Positive' as CARE believes that NAL will derive benefit on accord of receipt of substantial amount of pending insurance claim that is expected to ease its liquidity profile resulting in lower reliance on working capital borrowings leading to favorable capital structure and debt coverage indicators. The outlook, however, may be revised to 'Stable' if the improvement in key financial parameters of the company is substantially lower or if the same deteriorated going forward.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### ***Established track record and experienced management in the 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 through his associations with Zuari-Chambal, Nagarjuna and Mahindra & Mahindra groups.

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

***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 i.e Paddy, Cotton, Chilli, Vegetables, Pulses, Fruits and Oil seed.

***Improved profitability margins***

The profitability margins of the company improved during 9MFY17 on account of introduction of new products in the domestic retail market.

***Receipt of pending insurance claim leading to easement of liquidity profile and improvement in overall financial risk profile***

The liquidity position of the company improved with receipt of the pending insurance claim of Rs.32.44 crore during December 2016. Furthermore, the overall gearing and debt coverage indicators as on December 31, 2016 improved on back of repayment of term loan, plough back of profits and lower reliance on working capital borrowings.

**Key rating weakness**

***Decline in the total operating income due to unfavourable climatic conditions during FY16***

The total operating income of the company has deteriorated by 10% i.e. from Rs.761.86 crore during FY15 to Rs.701.69 crore in FY16 due to the unfavorable climatic conditions in the domestic market. However During 9MFY17, the company has reported total operating income of Rs.583.47 and PAT of Rs.10.64 crore

***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.

***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.

***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 on account of which the operating cycle of the company deteriorated during the FY16.

**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-Pesticides](#)

**Background**

Nagarjuna Agrichem Ltd (NACL) was incorporated in September 1996 (Erstwhile Chemagro International Limited). The company has its presence in the agrochemical industry 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 is planning to register its brand products in African countries to penetrate into those markets. NACL accessed primary capital market during 1993-94. The company is promoted by Hyderabad-based Nagarjuna Group which has interests in Fertilizers, Power Generation, Oil refinery and Construction.

During FY16, NACL reported a PBILDT of Rs.69.18 crore (FY15: Rs.67.10 crore) and a PAT of Rs.8.97 crore against Rs.7.68 crore in FY15, on a total operating income of Rs.701.69 crore (FY15: Rs.761.86 crore).

As per the unaudited financials for 9MFY17, NACL has reported an operating income of Rs.583.47 crore (9MFY17: Rs.569.88 crore) and PAT of Rs.10.64 crore (9MFY17: Rs.8.33 crore).

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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-Cash Credit	-	-	-	175.00	CARE BBB+; Positive
Fund-based - LT-Term Loan	-	-	Jan 2021	52.78	CARE BBB+; Positive
Non-fund-based - ST-BG/LC	-	-	-	113.00	CARE A3+

**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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	52.78	CARE BBB+; Positive	1)CARE BBB+ (10-Oct-16)	1)CARE BBB+ (04-Nov-15)	1)CARE BBB (18-Dec-14)	1)CARE BBB (06-Feb-14)
2.	Non-fund-based - ST-BG/LC	ST	113.00	CARE A3+	1)CARE A3+ (10-Oct-16)	1)CARE A3+ (04-Nov-15)	1)CARE A3 (18-Dec-14)	1)CARE A3 (06-Feb-14)
3.	Fund-based - LT-Cash Credit	LT	175.00	CARE BBB+; Positive	1)CARE BBB+ (10-Oct-16)	1)CARE BBB+ (04-Nov-15)	1)CARE BBB (18-Dec-14)	1)CARE BBB (06-Feb-14)

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