

**NACL Industries Limited (Erstwhile Nagarjuna Agrichem Ltd)**
**October 06, 2017**

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	224.50 (reduced from 227.78)	CARE A-; Stable [Single A Minus; Outlook: Stable]	Revised from CARE BBB+;Positive [Triple B Plus; Outlook: Positive]
Short-term Bank Facilities	113.00	CARE A2 [A Two]	Revised from CARE A3+ [ A Three Plus]
<b>Total Facilities</b>	<b>337.50</b> <b>(Rupees Three hundred and thirty seven crore and fifty lakh only)</b>		

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings of NACL Industries Limited takes into account improved financial performance during FY17 (refers to the period April 01 to March 31) marked by increase in the total operating income and profitability margins, realization of the pending insurance claim which led to easement of working capital and improvement in the operational performance. The ratings also factor in established track record of the company in the pesticide business, experienced management and diversified product range with presence across the domestic and international markets.

The ratings, however, are constrained by moderate overall gearing, 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***
***Improved operational performance during FY17***

During FY17, the capacity utilization of the company in technical and formulation divisions have been increased to 78% and 100% (from 55% and 92%) respectively, primarily on account of good monsoon compared to the last two years.

***Stable growth in total operating income with improved profitability margins***

The total operating income of the company has grown by ~6% i.e. from Rs.701.69 crore during FY16 to Rs.745.57 crore in FY17, primarily on account of better monsoon compared to the last two years. During

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

Q1FY18, the company has achieved revenue of Rs. 181.87 crore as against Rs.179.09 crore in Q1FY17. The profitability margins of the company have improved during FY17 on account of improvement in the revenue, introduction of new products in the market and receipt of pending insurance claim.

***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.

***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 11,000 dealers across the country. In the total operating income the domestic sales to export sales is 85:15.

***Key rating weakness***

***Moderate financial risk profile***

The overall gearing of the company have improved from 1.48x as on March 31, 2016 to 1.25x as on March 31, 2017 on account of scheduled repayment of term debt and accretion of profits to networth. The debt coverage ratio total debt/GCA improved from 7.14x in FY16 to 6.07x in FY17. Further the interest coverage ratio of the company has also improved from 2.06x in FY16 to 2.31x in 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. 0.26 crore during FY17.

***Working capital intensive nature of the industry:***

The working capital cycle continue to remain elongated. The average operating cycle for the company was at 146 days in FY17 as against 132 days in FY16, primarily on account of high inventory holding period and improved creditor period.

**Analytical approach: Standalone**

CARE has analyzed NACL's credit profile by considering the standalone financial statements as company doesn't have subsidiaries.

**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 Ltd (Erstwhile Nagarjuna Agrichem Ltd; NACL) was incorporated in November 1986. 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 has already registered few brand products in 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'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)	FY16 (A)	FY17 (A)
Total operating income	701.69	745.57
PBILDT	62.49	72.20
PAT	8.98	36.19
Overall gearing (times)	1.48	1.25
Interest coverage (times)	2.06	2.31

**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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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	-	-	March 2020	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
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)	1)CARE BBB (18-Dec-14)
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)	1)CARE A3 (18-Dec-14)
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)	1)CARE BBB (18-Dec-14)

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