



NACL Industries Limited

Ref: NACL/SE/2023-24

August 08, 2023

BSE Limited

Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400001

Company Code: 524709

National Stock Exchange of India Ltd

Exchange Plaza, 5th Floor,
Plot No.C/1 G Block, Bandra- Kurla Complex,
Bandra, Mumbai – 400051

Symbol: NACLIND

Dear Sir/Madam,

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, vide its letter dated August 07, 2023, has revised/re-affirmed the credit rating assigned to the Long Term & Short Term Bank Facilities of NACL Industries Limited and NACL Spec-Chem Limited (a Wholly Owned Subsidiary of NACL). The details of the same are given herein below:

A) NACL Industries Limited - Rating Action:

Facility	Rating Type	Rating Action	Rated Amount
Bank Loan	Long Term Rating	CRISIL A/Negative (Outlook revised from 'Stable'; Rating Re-affirmed)	₹ 915 Crores
	Short Term Rating	CRISIL A1 (Re-affirmed)	

B) NACL Spec- Chem Limited - Rating Action:

Facility	Rating Type	Rating Action	Rated Amount
Bank Loan	Long Term Rating	CRISIL A-/ Negative Outlook revised from 'Stable'; Rating Re-affirmed)	₹ 165 Crores
	Short Term Rating	CRISIL A2+ (Assigned)	

Kindly take the same into records.

Thanking you,

for **NACL Industries Limited**

Satish Kumar Subudhi

Vice President -Legal & Company Secretary

Encl: As above



Rating Rationale

August 07, 2023 | Mumbai

NACL Industries Limited

Rating outlook revised to 'Negative'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.915 Crore
Long Term Rating	CRISIL A/Negative (Outlook revised from 'Stable'; Rating Reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised the outlook on the bank facilities of NACL Industries Ltd (NACL; a part of the NACL group) to '**Negative**' from 'Stable' while reaffirming the rating at '**CRISIL A**'. The short term rating has been reaffirmed at '**CRISIL A1**'.

The outlook revision factors the operating loss reported by NACL group owing to decline in net realisable value of the inventories on account of decline in the agrochemical prices globally and dip in revenue due to delay in monsoon which impacted the offtake. Consequently, the group reported operating loss of at consolidated level in Q1 of fiscal 2024. Improvement in operating performance in the subsequent quarters backed by demand recovery, better monsoon and favorable demand from the global markets will remain the key monitorable.

The ratings continue to reflect the strong market presence and brand of NACL in the agrochemical space, supported by the extensive experience of the management team, well-established clientele, geographical diversification in revenue, above average financial risk profile and above average business 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 across geographies, comprising 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 meet upcoming demand could enhance growth over the medium term. The company will continue to benefit from the expertise of the promoters and management and leverage its customer relationships.

Above average business profile

Business performance has improved consistently in the past, with revenue growing to Rs 2,105 crore in fiscal 2023 from Rs 1,002 crore in fiscal 2020. The growth momentum is expected to continue over the medium term with commencement of operations in the subsidiary, NACL Spec Chem Ltd (NSCL) and the continued demand from the existing products. Operating margins are expected to continue healthy at above 8% in fiscal 2024 despite the operating losses in the first quarter of the fiscal.

Above average financial risk profile

The above-average financial risk profile of NACL is reflected in moderate capital structure and comfortable debt protection metrics. Gearing stood at 1.37 times as on March 31, 2023, led by higher reliance on working capital borrowing and the debt availed for capex in the subsidiary. Debt protection metrics were moderate, indicated by interest coverage ratio of 4.34 times and net cash accrual to total debt ratio of 0.15 time in fiscal 2023.

Weakness:

Large working capital requirement

Gross current assets have been 210-240 days over the four fiscals through 2023. The company offers considerable credit in the domestic formulations business and has to maintain adequate inventory owing to the number of stocks keeping units, import of raw materials and seasonality in operations. Receivables are 100-120 days and inventory at 70-90 days on average. The incremental working capital requirement is managed efficiently through a mix of cash accrual and bank borrowing. 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 numerous 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. Fortunes of this 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 impact 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 was 83% over the 12 months through June 2023. Cash accrual is projected at more than Rs 100 crore per annum, against yearly repayment obligation of around Rs 65 crore over the medium term. Cash and bank balance was healthy at around Rs 41 crore and current ratio moderate at 1.27 times on March 31, 2023

Outlook: Negative

The outlook is negative on account of the impact of Q1 performance on the full year performance of the company.

Rating Sensitivity Factors

Upward Factors

- Steady increase in revenue and sustenance of the operating margin at around 8%, leading to higher cash accrual
- Improvement in the financial risk profile.
- Stabilisation of operations at the Dahej plant (NSCL) in Gujarat and contributing to significantly higher revenue.

Downward Factors

- Sustained decline in revenue, with profitability below 6.5%
- Stretched working capital cycle, resulting in material increase in debt or debtor write-offs

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 formulation business of the company is mainly in the Indian market, and it sells through a 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 and Mr M Pavan Kumar manages the operations.

NSCL set up a manufacturing unit at Dahej. The unit has installed capacity of 6,000 tonne per annum for manufacturing technical and intermediate for domestic as well as export markets.

Company reported consolidated revenue and operating margin of Rs. 375.91 crores and -7.94% respectively in 3m FY24 as against Rs. 475.34 crores and 6.77% for the corresponding period in the previous fiscal.

Key Financial Indicators

As on / for the period ended March 31	Unit	2023	2022
Operating income	Rs crore	2,104.64	1,636.43
Reported profit after tax (PAT)	Rs crore	94.87	73.42
PAT margin	%	4.51	4.49
Adjusted debt/adjusted networth	Times	1.37	1.24
Interest coverage	Times	3.80	5.19

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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. 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 level	Rating assigned with outlook
NA	Cash credit*	NA	NA	NA	125	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	35	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	55	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	34	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	75	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	50	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	5	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	30	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	26.32	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	33.68	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	35	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	11	NA	CRISIL A/Negative
NA	Cash credit*	NA	NA	NA	40	NA	CRISIL A/Negative
NA	External commercial borrowing	NA	NA	May-2024	7.3	NA	CRISIL A/Negative
NA	Letter of credit	NA	NA	NA	20	NA	CRISIL A1
NA	Letter of credit	NA	NA	NA	15	NA	CRISIL A1
NA	Letter of credit	NA	NA	NA	55	NA	CRISIL A1
NA	Letter of credit	NA	NA	NA	30	NA	CRISIL A1
NA	Letter of credit	NA	NA	NA	30	NA	CRISIL A1
NA	Letter of credit	NA	NA	NA	45	NA	CRISIL A1
NA	Long-term loan	NA	NA	Jan-2025	13.13	NA	CRISIL A/Negative
NA	Long-term loan	NA	NA	Feb-2026	40	NA	CRISIL A/Negative
NA	Long-term loan	NA	NA	Jan-2026	28.85	NA	CRISIL A/Negative
NA	Long-term loan	NA	NA	Dec-2024	11.66	NA	CRISIL A/Negative
NA	Long-term loan	NA	NA	Mar-2028	19.34	NA	CRISIL A/Negative
NA	Long-term loan	NA	NA	Jun-2025	19.4	NA	CRISIL A/Negative
NA	Proposed working capital facility	NA	NA	NA	25.32	NA	CRISIL A1

*Working capital demand loan (WC DL) and pre&post shipment credit are sublimits of cash credit

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
NACL Industries Limited	Full	Same line of business, common promoters and strong business and financial linkages. NACL holds a 26% stake in Nasense Labs Pvt Ltd and has been consolidated accordingly
LR Research Laboratories Private Limited	Full	
NACL Spec-Chem Limited	Full	
Nagarjuna Agrichem (Australia) Pty. Limited	Full	
NACL Multichem Private Limited	26%	

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	720.0	CRISIL A/Negative / CRISIL A1	27-07-23	CRISIL A1 / CRISIL A/Stable	08-08-22	CRISIL A1 / CRISIL A/Stable		--		--	--
Non-Fund Based Facilities	ST	195.0	CRISIL A1	27-07-23	CRISIL A1	08-08-22	CRISIL A1		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit*	55	RBL Bank Limited	CRISIL A/Negative
Cash Credit*	34	Shinhan Bank	CRISIL A/Negative
Cash Credit*	75	Axis Bank Limited	CRISIL A/Negative
Cash Credit*	50	Bandhan Bank Limited	CRISIL A/Negative
Cash Credit*	5	Bank of Bahrain and Kuwait B.S.C.	CRISIL A/Negative
Cash Credit*	30	SBM Bank (India) Limited	CRISIL A/Negative
Cash Credit*	26.32	Kotak Mahindra Bank Limited	CRISIL A/Negative
Cash Credit*	125	HDFC Bank Limited	CRISIL A/Negative
Cash Credit*	35	SVC Co-Operative Bank Limited	CRISIL A/Negative
Cash Credit*	33.68	Kotak Mahindra Bank Limited	CRISIL A/Negative
Cash Credit*	35	YES Bank Limited	CRISIL A/Negative
Cash Credit*	11	IndusInd Bank Limited	CRISIL A/Negative
Cash Credit*	40	Doha Bank	CRISIL A/Negative
External Commercial Borrowings	7.3	RBL Bank Limited	CRISIL A/Negative
Letter of Credit	30	SBM Bank (India) Limited	CRISIL A1
Letter of Credit	30	YES Bank Limited	CRISIL A1
Letter of Credit	45	IndusInd Bank Limited	CRISIL A1
Letter of Credit	20	Axis Bank Limited	CRISIL A1
Letter of Credit	15	Bandhan Bank Limited	CRISIL A1
Letter of Credit	55	Bank of Bahrain and Kuwait B.S.C.	CRISIL A1
Long Term Loan	40	Bajaj Finance Limited	CRISIL A/Negative
Long Term Loan	28.85	RBL Bank Limited	CRISIL A/Negative
Long Term Loan	11.66	RBL Bank Limited	CRISIL A/Negative
Long Term Loan	19.34	RBL Bank Limited	CRISIL A/Negative
Long Term Loan	13.13	Bajaj Finance Limited	CRISIL A/Negative
Long Term Loan	19.4	Doha Bank	CRISIL A/Negative
Proposed Working Capital Facility	0.32	Not Applicable	CRISIL A1
Proposed Working Capital Facility	25	Not Applicable	CRISIL A1

*Working capital demand loan (WC DL) and pre&post shipment credit are sublimits of cash credit

Criteria Details

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](#)

[CRISILs Criteria for rating short term debt](#)

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Rating Rationale

August 07, 2023 | Mumbai

NACL Spec-Chem Limited

Rating outlook revised to 'Negative'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.165 Crore
Long Term Rating	CRISIL A-/Negative (Outlook revised from 'Stable'; Rating Reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the bank facilities of NACL Spec-Chem Ltd (NSPL) to '**Negative**' from 'Stable' while reaffirming the rating at '**CRISIL A-**'. The short term rating has been reaffirmed at 'CRISIL A2+'.

Outlook has been revised on account of similar rating action on the parent (NACL Industries Ltd).

The ratings continue to reflect the extensive experience of the promoter in the agrochemicals industry and the strong support from the parent, NACL Industries Ltd (NACL). These strengths are partially offset by moderately leveraged capital structure and exposure to intense competition, regulatory changes, and seasonality in the agrochemicals sector.

Analytical Approach

CRISIL Ratings has factored in the support from the parent, NACL, by applying its parent notch-up criteria.

Key Rating Drivers & Detailed Description

Strengths:

Extensive industry experience of the promoter: 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 diversified across geographies and include established players in India and abroad. The group 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 promoter and management and leverage its customer relationships.

Completion of capex: NSCL commenced operations in January 2023. During the first quarter of fiscal 2024, the company generated revenue of Rs 50-55 crore. Currently, capacity of around 4000 tonne is operational and the company is operating at around 90% of capacity. The remaining 2000 tonne capacity will become operational in the short term, which will drive up revenue. Revenue is expected above Rs 300 crore in fiscal 2024 and the company is likely to report operating profit in the first full year of operations.

Strong support from the parent: NSCL is a fully owned subsidiary of NACL, and receives financial, operational and managerial support from the parent. The NACL group has helped NSCL raise funds through term debt as and when required. NACL has also given a corporate guarantee for the debt facilities availed by NSCL.

Weakness:

Moderately leveraged capital structure: NSCL has an average financial risk profile with moderately leveraged capital structure on account of debt-funded project and moderate debt protection metrics. However, as the project has been completed and debt repayment has started, the capital structure should improve over the medium term with better accretion to reserve and reduction in term debt. NACL has brought in additional funds in the form of CCDs, which supports the financial risk profile of NSCL.

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 the NACL group 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.

Liquidity: Adequate

Bank limit utilisation was moderate at 81.7% on average for the three months through March 2023. Cash accrual is expected over Rs 20 crore against term debt obligation of Rs 9-15 crore over the medium term and will cushion liquidity. Current ratio was 0.95 time on March 31, 2023.

Outlook: Negative

Outlook is negative on account of the revision in outlook of the parent company, NACL Industries Ltd.

Rating Sensitivity Factors

Upward factors

- Stabilisation of operations and revenue more than Rs 500 crore with operating margin over 14%
- Improvement in the financial risk profile
- Upgrade in credit rating of the parent

Downward factors

- Significantly low cash accrual during the initial phase of operations
- Operating margin remaining weak below 9% during the initial phase of operations
- Any significant change in strategy of the parent affecting the business risk profile of NACL or downgrade in credit rating of the parent

About the Company

Incorporated in April 2020, NSCL is a wholly owned subsidiary of NACL. The company has set up a manufacturing unit with installed capacity of 6,000 tonne per annum in the Dahej Industrial Zone in Gujarat. The company is promoted by Ms K Lakshmi Raju.

About the Group

NACL, incorporated in 1986, manufactures and exports crop protection technicals (active ingredients) and formulations. It manufactures all kinds of pesticides, insecticides, herbicides, fungicides and other plant growth chemicals. The company's formulation business is mainly in India and it sells through its large retail dealer network across the country. 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.

Key Financial Indicators

As on / for the period ended March 31	Unit	2023	2022
Operating income	Rs crore	16.22	0.00
Reported profit after tax	Rs crore	-8.97	-0.36
PAT margin	%	-46.46	-8834.15
Adjusted debt/adjusted networth	Times	-41.99	37.36
Interest coverage	Times	-0.31	-0.02

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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Term loan	NA	NA	Mar-2028	35	NA	CRISIL A-/Negative
NA	Term loan	NA	NA	Mar-2028	100	NA	CRISIL A-/Negative
NA	Cash credit*	NA	NA	NA	10	NA	CRISIL A-/Negative
NA	Letter of credit	NA	NA	NA	20	NA	CRISIL A2+

*Working capital demand loan and pre- and post-shipment credit are sublimits of cash credit.

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	145.0	CRISIL A-/Negative	27-07-23	CRISIL A-/Stable	03-10-22	CRISIL BBB+/Stable		--		--	--
Non-Fund Based Facilities	ST	20.0	CRISIL A2+	27-07-23	CRISIL A2+		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit*	10	Axis Bank Limited	CRISIL A-/Negative
Letter of Credit	20	Axis Bank Limited	CRISIL A2+
Term Loan	35	Axis Bank Limited	CRISIL A-/Negative
Term Loan	100	HDFC Bank Limited	CRISIL A-/Negative

*Working capital demand loan and pre- and post-shipment credit are sublimits of cash credit

Criteria Details

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
Rating criteria on Financial risk framework for manufacturing and services sector companies
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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