

## Bhagiradha Chemicals Industries Limited

April 07, 2017

### Ratings

Facility	Amount (Rs. crore)	Rating <sup>[1]</sup>	Rating Action
Long-term Bank Facilities	36.66	<b>CARE BB-; Stable (Double B Minus; Outlook: Stable)</b>	<b>Assigned</b>
Short-term Bank Facilities	22.34	<b>CARE A4 (A Four)</b>	<b>Assigned</b>
<b>Total</b>	<b>59.00 (Rupees Fifty Nine crore only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bhagiradha Chemicals & Industries Limited (BCIL) are constrained by low capacity utilization, high client concentration, vulnerability to volatility in raw material prices, dependency on monsoon and climatic conditions, exposure to foreign exchange fluctuation risk, declining trend in the profit level and margins during the period FY14-FY16 (refers to the period April 01 to March 31) and weak liquidity profile with stretched creditor days. The ratings is, however, underpinned by the experienced promoters with established track record, focus on the export markets, reputed and established client base, moderate capital structure, improvement in the financial performance during 9MFY17 and established Research & Development facilities. The ability of the company to improve the profitability and liquidity position and arrange for required resources in a timely manner to manage the working capital requirements are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key rating strengths:

**Experienced promoters with established track record:** The main promoter, late Mr S Koteswara Rao was a Post Graduate in Chemical Engineering from Indian Institute of Technology, Madras and was associated with Indian Institute of Chemical Technology. The day-to-day operations of the company are managed by Mr S Chandra Sekhar (MD) supported by a team of qualified professionals down the line. Mr Chandra Sekhar has M.S in Chemical Engineering from University of Illinois, Chicago, US and 15 years of experience in synthesis of chemicals and design of Chemical Plants.

**Focus on the export markets:** BCIL has presence in both domestic as well as export market. However, the focus has been on exports with export sales comprising about 60% of sales during FY15-16.

**Reputed and established client base:** BCIL, by virtue of long presence in the industry and industry linkages, has established a reputed client base comprising some of the renowned names in the agrochemical industry, both in export and domestic markets.

**Moderate capital structure:** The company has a moderate capital structure with satisfactory overall gearing ratio. However, the company has been facing a working capital gap given the relatively lower working capital limits vis-à-vis requirement.

**Improvement in financial performance in 9MFY17:** The financial performance has witnessed improvement in the current fiscal with recovery of prices/volume in the market and increased- offtake from its key clients. During 9MFY17, the company has reported an operating income of Rs.153.7 crore and PBITD of Rs.10.1 crore which represents annualized growth of about 36% and 3x respectively over FY16 and a PAT of Rs.1.49 crore.

#### Key rating weakness:

**Low capacity utilization:** The company's capacity utilisation has decreased in FY16 on account of decreased demand in the domestic and global market as well as due to intense competition from lower priced Chinese products.

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

**High client concentration:** The revenue profile of the company is concentrated on few clients with the top 10 clients contributing about 79-93% of the sales during FY14-16.

**Dependency on 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.

**Vulnerability to volatility in raw material prices:** Raw material cost is the major cost element for the company with an average contribution of about 80% to the cost of sales in the last three years. The prices of the major inputs (chemicals compounds) are volatile in nature which may impact the profitability of the company given the limited pricing flexibility in view of huge competition in the industry, particularly cheap exports from China.

**Exposure to foreign exchange fluctuation risk:** The company has significant export and import transactions which subjects it to risk associated with volatility in the exchange rates.

**Stretched working capital position:** The company has been facing a working capital which is being bridged temporarily through extension of payments to creditors. The dependence on working capital borrowing has also been high with almost full utilization of the limits. Thus, the ability to bridge the working capital gap remains important from a credit perspective.

**Analytical approach:** Standalone

**Applicable Criteria**

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

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

[CARE criteria for rating short term instruments](#)

[CARE's methodology – Manufacturing companies](#)

[CARE's methodology – Pesticide companies](#)

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

#### **About the Company**

Bhagiratha Chemicals & Industries Limited (BCIL), incorporated in July 1993, has been promoted by late Mr S Koteswara Rao and Mr D Sadasivudu. The company has its presence in the agrochemical industry and is engaged in manufacturing of pesticides at its three units (installed capacity of 4,000 MTPA) located at Cheruvukommupalem, Ongole district, Andhra Pradesh. BCIL derives majority of revenue from exports which comprised about 57.35% of the total sales in FY16 (57.24% in FY15). The company also has an established Research & Development center located in the factory premises which is recognized by the Ministry of Science & Technology, Government of India. The manufacturing facilities are accredited with various quality certifications.

BCIL is a public limited company listed on the BSE and the promoter group holds an aggregate 23.08% stake in the company as on December 31, 2016.

The company reported total operating income of Rs.150.44 crore in FY16 (FY15: Rs.220.65 crore) with a PBILDT of Rs.4.49 crore (FY15: Rs.11.61 crore) and a net loss of Rs.3.21 crore (FY15: PAT of Rs.2.52 crore).

During 9MFY17, the company has reported total operating income of Rs.153.76 crore with a PBILDT of Rs.9.84 crore and a PAT of Rs.1.49 crore.

**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](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

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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 2019	13.91	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	22.75	CARE BB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	22.09	CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	0.25	CARE A4

#### 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	13.91	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	22.75	CARE BB-; Stable	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	22.09	CARE A4	-	-	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.25	CARE A4	-	-	-	-

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