

Bhagiradha Chemicals & Industries Limited

September 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	39.15	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short-term Bank Facilities	23.50	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Facilities	62.65 (Rs. Sixty two crore and sixty five lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Bhagiradha Chemicals & Industries Limited (BCIL) is backed by equity infusions made by promoters during FY18 (refers to the period from April 01 to March 31), satisfactory financial and operational performance in FY18 despite the fire accident along with improved financial performance during Q1FY19. The ratings are underpinned by increasing revenue contribution from the formulation business that the company has forayed in during FY18. The ratings continue to derive strength from long-standing experience of the promoters, reputed client base, comfortable capital structure and debt protection metrics, balanced product portfolio mix, established Research & Development facilities along with stable industry growth prospects. The rating strengths are however, partially offset by vulnerability to volatility in raw material prices, dependency on monsoon and climatic conditions, exposure to foreign exchange fluctuation risk and working capital intensive nature of operation. The ratings also take cognizance of the temporary shutdown of one of the units subsequent to the fire accident during FY18 and the proposed capex. The ability of the company to continue to expand the scale of operation and improve profitability amidst intense competition and manage the working capital requirements efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Experienced and resourceful promoters with established track record: The company is currently managed by Mr. S Chandra Sekhar (MD). He is an M.S in Chemical Engineering from University of Illinois, Chicago, US and has more than 15 years of experience in synthesis of chemicals and design of Chemical Plants. The management is supported by a team of qualified professionals down the line. The promoters are resourceful and have been infusing funds to support the growing operations of the company. During FY18, the promoters raised Rs. 51.49 crore as equity share capital and share premium (including share warrants of Rs. 2.33 crore out of a total issue of Rs. 9.33 crore). The company realized the remaining Rs. 7.00 crore towards share warrants during August, 2018.

Satisfactory operational performance coupled with diversified product mix during FY18: Despite the fire accident in Block III (which produced some of the major products of BCIL in terms of value, like Azoxystrobin, BIN-4 and Fipronil, among others) which remained shut for 10 months in FY18 (May 2017 - March 2018); the company has achieved production of 2,494 MT by channeling production from the remaining two operational blocks (2,694 MT in FY17). The company's sales increased in volume terms from 2550 MT in FY17 to 2570 MT in FY18. During FY18, the company diversified its product portfolio into formulations resulting in increased sales contribution of formulations to 12.31% (0% during FY17).

Moderate financial performance during FY18 albeit improved in Q1FY19: During FY18, the company had witnessed a 10% decline in the TOI over FY17 from Rs. 204.70 crore in FY17 to Rs. 184.03 crore in FY18 on account of temporary shutdown of production unit III. Despite the incident, BCIL was able to achieve TOI of Rs. 184.03 crore (91.63% of the projected sales for FY18) on account of recovery of prices/volume in the market and increased off-take from its key clients. The PBILDT margin improved from 6.48% in FY17 to 6.69% during FY18 on account of better absorption of expenses at operating level and increased sales realization from high margin products. Although BCIL reported net loss of Rs. 1.30 crore for FY18 attributable to exceptional expense item of Rs. 8.27 crore owing to part settlement of the insurance claim, the adjusted PAT (before exceptional item) was at Rs. 2.52 crore with a PAT margin of 1.37%. Nevertheless, any reoccurrence of such an incident can prove to be detrimental for the financial and operational performance of the company in the future. The balance insurance claim is to be received before Q3FY19.

The company has reported TOI of Rs. 73.29 crore and PAT of Rs. 2.34 crore in Q1FY19 given the commencement of operations of Block III in March 2018 and increased off-take from its key clients (formulations and technicals).

Shift in focus of sales from export to domestic market: BCIL has presence in both the domestic as well as export market. Due to increasing domestic demand (both technical and formulations) attributable to increasing awareness amongst Indian farmers, rising product innovation, rampant pest attacks in a few regions, good rainfall ahead of the rabi season and other favourable industry factors; the proportion of domestic sales has increased to 60% of the TOI in FY18 (40% in FY17) and that of export sales has decreased to 40% of TOI (60% in FY17). The company aims to further create a balance in its portfolio, thereby reducing geographical concentration risk.

Reputed client base corroborated by declining client concentration: BCIL, by virtue of its long presence in the industry and well-established industry linkages, has established a reputed client base comprising of Dow Agro Sciences (USA), Adama Makhteshim Limited (Israel), Helm AG (Germany), Nagarjuna Agrichem Limited (India), Deccan Fine Chemicals (India) Private Limited and other renowned names in the agrochemical industry, both in the export and domestic markets. During FY19, the company added new clients to its ambit like Bharat Rasayan Ltd, Atul Industries Ltd, Nichino Chemicals India Pvt. Ltd (Formerly known as Hyderabad Chemicals Ltd) and a Portugal company-Sapec Agro. The company has reduced client concentration with revenue from the top 10 clients contributing about 62% of the TOI during FY18 (about 77% of the TOI during FY17).

Established and modernizing Research & Development facilities: BCIL has an established R&D division located at the factory premises which is recognized by the Ministry of Science & Technology, Government of India (GoI). The company has also entered into confidentiality agreements with MNC's Adama of Israel and Agro Kanesho of Japan for jointly developing process technology for certain new products in FY19.

Comfortable capital structure: The company has a comfortable capital structure represented by overall gearing and debt-equity below unity as on March 31, 2018. The Overall Gearing has improved from 1.25x as on March 31, 2017 to 0.62x as on March 31, 2018 on account of improvement in tangible net worth coupled with relatively low debt levels. However, the interest coverage has marginally declined from 1.91x in FY17 to 1.78x in FY18 due to decrease in PBILDT level.

Stable Industry Outlook: The Pesticide Industry in India is growing rapidly and is marked by the presence of large number of unorganized players (technical grade manufacturers and formulators). The Indian pesticide industry has experienced strong growth in the past and is expected to grow further to Rs. 484.00 billion by FY20, growing at a 12% CAGR. The key growth drivers are India's capability in low cost manufacturing, availability of technically trained manpower, seasonal domestic demand, overcapacity, better price realization globally, strong presence in generic pesticide manufacturing and good rainfall ahead of the rabi season. With the introduction of China's new environmental program and surge in the prices of pesticide and pesticide intermediates imported from China, backward integration would provide immense opportunities for the Indian players, going forward in FY19.

Key rating Weaknesses

Working capital intensive nature of the business: The company operates in a working capital intensive industry wherein the requirement of working capital remains high. The operating cycle of the company has elongated during FY18 on account of delay in realization of payments from a few clients coupled with stretched inventory period. Nevertheless, the average utilization of working capital limit remained comfortable at 71.76% during the 12 month period ended June 30, 2018.

Proposed capex for FY19: The company has planned capex for FY18-FY20 for setting up of the formulation unit for few of its products, which would be funded through equity infusions brought in by promoters and internal accruals. The capex is proposed to be completed by March 2020. However, successful completion of the capex without incurring any cost or time overrun is critical, also the operational and financial benefits proposed to be derived from the said capex remain to be seen.

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 79% 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 moderate export and import transactions which subjects it to risk associated with volatility in the exchange rates. However, since the company has a natural hedge mechanism it does not book forwards to mitigate foreign currency fluctuation risk.

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 – Pesticide](#)

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

About the Company

Bhagiradha Chemicals & Industries Ltd (BCIL), incorporated in July 1993, has been promoted by late Mr. S. Koteswara Rao and Mr. D Sadasivudu. The company has established its presence in the agrochemical industry and is engaged in manufacturing of pesticides (Technicals - Herbicides, Insecticides, Fungicides, plant growth regulator and intermediates) at its three units (installed capacity of 4,825 MTPA) located at Cheruvukommupalem, Ongole district, Andhra Pradesh. The major products include Chloropyriphos –Tech, Fluroxypyr – Tech, Triclopyr –Tech, Imidacloprid – Tech and Azoxystrobin – Tech. The company has forayed into the formulation of Chloropyriphos and Azoxystrobin with installed capacity of 235 KLPAs in 2018. 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 quality certifications viz. ISO 9001:2008 for quality system, ISO 14001:2004 for environmental management system and OHSAS 18001:2007 for occupational health and safety management.

BCIL is a public limited company listed on the BSE and the promoters hold an aggregate 19.93% stake in the company as on June 30, 2018.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	204.70	184.03
PBILDT	13.26	12.31
PAT	0.99	2.52
Overall gearing (times)	1.25	0.62
Interest coverage (times)	1.91	1.78

Status of non-cooperation with previous CRA: NA

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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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	-	-	September 2022	15.15	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	24.00	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	22.00	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	0.25	CARE A3
Fund-based - ST-Standby Line of Credit	-	-	-	1.25	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 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	15.15	CARE BBB-; Stable	-	1) CARE BB+; Stable (23-Feb-18) 2) CARE BB-; Stable (07-Apr-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	24.00	CARE BBB-; Stable	-	1) CARE BB+; Stable (23-Feb-18) 2) CARE BB-; Stable (07-Apr-17)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	22.00	CARE A3	-	1) CARE A4+ (23-Feb-18) 2) CARE A4 (07-Apr-17)	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.25	CARE A3	-	1) CARE A4+ (23-Feb-18) 2) CARE A4 (07-Apr-17)	-	-
5.	Fund-based - ST-Standby Line of Credit	ST	1.25	CARE A3	-	1) CARE A4+ (23-Feb-18)	-	-

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