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# India Ratings Assigns Bhagiradha Chemicals & Industries Limits 'IND BBB+'/Positive

Sep 11, 2023 | Pesticides & Agrochemicals

India Ratings and Research (Ind-Ra) has rated Bhagiradha Chemicals & Industries Limited's (BCIL) bank facilities as follows:

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating/Outlook | Rating Action |
|---|---|---|---|---|---|---|
| Rupee term loan | - | - | FY28 | INR248 | IND BBB+/Positive | Assigned |
| Fund-based Facilities | - | - | - | INR415 | IND BBB+/Positive/IND A2+ | Assigned |
| Non-fund-based facilities | - | - | - | INR423 | IND BBB+/Positive/IND A2+ | Assigned |
| Proposed bank facilities | - | - | - | INR214 | IND BBB+/Positive/IND A2+ | Assigned |

**ANALYTICAL APPROACH:** Ind-Ra has taken a consolidated view of BCIL and its 100% subsidiary - Bheema Fine Chemicals Private Limited (Bheema), to arrive at the ratings, owing to the significant operational and financial linkages between the entities.

The Positive Outlook reflects Ind-Ra's expectation of an improvement in the consolidated business profile post the completion of Phase-1 of the planned capex in a phased manner from 4QFY24 and full commissioning of the same by September 2024, which would improve the scale of the operations meaningfully. Furthermore, Ind-Ra expects the margins, which were impacted by global destocking of agro-chemicals in 1QFY24, to start improving from 3QFY24, when the capex on streaming would also come, thereby benefitting the company. Additionally, for the first round of capex, the company intends to take only minimal debt as it has internal accruals in place. Furthermore, the liquidity is supported by the proceeds from the rights issue done during FY23, to support its working capital needs; this would keep the credit metrics comfortable over the short-to-medium term.

## Key Rating Drivers

**Revenues and Margins to Improve in FY25 Post Moderation in FY24:** BCIL and Ind-Ra expect the revenues and absolute EBITDA to improve in FY25, led by the operationalisation of around 45% capacity of 3,000 tonnes per annum as part of the phase 1 of the capex plan of the company. In FY24, the company is likely to see a moderation in revenues and margins, with the global destocking leading to a decline in the average realisations for the industry.

BCIL's revenue fell to INR1,000 million in 1QFY24 (1QFY23: INR1,217 million, FY23: INR5,021 million, FY22: INR4,357 million), with the EBITDA declining to INR71 million (INR196 million, INR773 million, INR683 million) and the margins dropping to 7% (16%, 15%, 16%). Ind-Ra expects the margins to start picking up from 3QFY24, which coupled with the on-streaming of the capex would result in EBITDA expansion.

**Comfortable Credit Metrics despite Expansion Plans:** Despite the planned capex of INR2,700 million for phase I and lower EBITDA expectation for FY24, Ind-Ra expects the credit metrics of the company to remain comfortable, on account of funding of a large part of the capex from internal accruals, liquidity support from the rights issue proceeds, which was done to support the working capital needs, and proposed further equity infusions and debt being limited to around INR850 million. BCIL's net leverage increased marginally to 1x on a trailing EBITDA basis in 1QFY24 (FY23:0.7x, FY22:1.3x), while the coverage declined but remained comfortable for the rating level at 4x (15.5x, 7.5x), led by the moderation in EBITDA.

Phase I capex of INR2,700 million would be incurred over FY23-FY25, under Bheema, for setting up a 3,000-tonne active ingredients (AI) manufacturing facility, with phased commissioning starting from 4QFY24, and completion likely by September 2024. The company had already incurred a capex of INR573 million as of August 2023. The timely tie-up and drawdown of the debt and equity to be raised and the timely completion of the phase-1 of the planned capex would remain key monitorables for the ratings.

Over the longer term, BCIL might also look at additional capex of INR4,500 million for increasing the capacity to 9,000t by FY30 from 3,000t; the capex would be spread out over the years and would be implemented in a phased manner, as per the company. Ind-Ra would monitor the extent of the capex on an annual basis and the funding for the same. Higher-than-expected debt-led capex would remain a key monitorable.

The operationalisation of the phase 1 of the capex would lead to a significant improvement in the overall revenues and EBITDA. Ind-Ra expects the company to have peak consolidated debt of INR2,200 million-2,400 million in the medium term, including capex debt and short-term working capital debt, leading to the credit metrics remaining comfortable for the rating levels.

**Liquidity Indicator - Adequate:** While BCIL keeps low cash and cash equivalents on its books (FY23: INR29 million FYE22: INR22 million), the company has sanctioned fund-based limits of INR41.5 million and non-fund-based limits of INR42.5 million, with a low average utilisation of 28% and 35%, respectively, during the 12 months ended July 2023.

BCIL's free cash flow remained negative at INR510 million in FY23 (FY22: negative INR169 million), led by an increase in working capital requirements and the capex of INR598 million undertaken by the company, largely at Bheema. Furthermore, the company paid out dividends of INR31 million in FY23 (FY22: INR8 million). BCIL received sanctions of a long-term debt of INR247.5 million during FY23, with INR194 million drawn till March 2023 and the balance by August 2023. The long-term debt was utilised partially towards the capex incurred. The company has moderate debt repayments of INR3.75 million and INR5 million in FY24 and FY25, respectively.

On a consolidated basis, the gross debt increased to INR697 million at 1QFYE24 (FYE23: INR578 million, INR880 million), including acceptances of INR121 million (INR78 million, INR75 million), long-term debt of INR211 million (INR211 million, INR148 million) and the balance in short-term borrowings. Despite the increase in net working capital, the short-term borrowings remained low, led by the use of the rights issue proceeds, partially for meeting the elevated working capital requirement.

The availability of unutilised working capital limits will remain a key monitorable for Ind-Ra, given the incremental working capital required to sustain the revenue growth.

**Working Capital-Intensive Nature of Business:** BCIL's working capital cycle, similar to that of its peers, is stretched, leading to increased working capital borrowings. The company extends a credit period of 60-120 days to its customers. Furthermore, given the seasonal nature of consumption of farm protection chemicals, the inventory holding period is cyclical at 60-90 days for the company. However, the presence of exports in the business mix provides some cushion to the seasonality of cash flows. The payable period is about 90 days. The company uses letters of credit for procuring raw materials. Ind-Ra expects the net working capital cycle to range between 100-120 days in FY24. The net working capital cycle stretched to 154 days in 1QFY24 (FY23: 100 days, FY22:102 days), led by an increase in the receivable days to 129 (94, 81), a rise in the inventory days to 81 (78, 67), and a decline in the payable days to 55 (72, 47). The receivable days remained extended because of industry-wide issues with suppliers, owing to which BCIL extended their credit period marginally. Ind-Ra expects the same to revert to the normal levels by FYE24.

**Product Concentration Risk:** BCIL's products are broadly classified into insecticides, herbicides, and fungicides. The company manufactures agrochemical technical products and has a product portfolio of 13 products, with seven more products under development. The products proposed to be manufactured at Bheema would be similar to BCIL's existing product offerings. BCIL's main products include Chlorpyrifos, Pymetrozine, Azoxystrobin, and Fipronil. The top three products of the company, Chlorpyrifos, Azoxystrobin, and Fipronil, formed around 82% of the company's revenues in FY23 (FY22: 84%). Given the regulated nature of the industry, a ban on the usage of any of the key products could impact the revenues of the company, which continues to be a key monitorable.

Furthermore, the company sells its products to other leading agro-chemical entities. The top ten key customers accounted for around 68% of the sales in FY23 (FY22: 60%). Also, the top ten suppliers for the company formed around 72% of the company's purchases in FY23 (FY22: 64%).

**Regulated Nature of Industry:** The manufacturing of agrochemicals such as insecticides, pesticides and herbicides is regulated by the government. BCIL's products are regulated by the Central Insecticides Board and Registration Committee.

## Rating Sensitivities

**Positive:** The following developments, individually or collectively, could lead to a positive rating action:

- timely completion of the phase-1 of the planned capex, without cost overruns, leading to an improvement in the scale and the EBITDA exceeding INR750 million on a sustained basis
- a sustained improvement in the liquidity position or lower-than-expected debt-funded capex, leading to the net leverage improving to below 3x, on a sustained basis

**Outlook Revision to Stable:** The following developments, individually or collectively, could lead to a negative rating action:

- sustained deterioration in the scale, and the EBITDA declining below INR750 million
- significant deterioration in the liquidity position or higher-than-expected debt-funded capex, leading to the net leverage exceeding 3x, on a sustained basis
- significant delays in the execution of the phase-1 of the planned capex or significant cost overruns on the same

## Company Profile

BCIL was incorporated in 1993 at Hyderabad, Andhra Pradesh, with the purpose of manufacturing agrochemicals such as pesticides, insecticides, and herbicides. BCIL has a facility of 3,250MT at Prakasam (Andhra Pradesh). Furthermore, the company is setting up a 9,000T AI manufacturing facility at Kadechur industrial area

(Yadgir, Karnataka), under its subsidiary, Bheema.

**FINANCIAL SUMMARY**

| Particulars | 1QFY24 | FY23 | FY22 |
|---|---|---|---|
| Revenue (INR million) | 1,000 | 5021 | 4357 |
| EBITDA (INR million) | 71 | 773 | 651 |
| Interest expense (INR million) | 17 | 50 | 59 |
| Interest coverage (x) | 4.2 | 15.5 | 11 |
| PAT (INR million) | 20 | 452 | 357 |
| Source: BCIL, Ind-Ra | | | |

## Non-Cooperation with previous rating agency

Not applicable

## Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## Bank wise Facilities Details

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## Complexity Level of Instruments

| Instrument Type | Instrument Complexity |
|---|---|
| Rupee term Loan | Low |
| Fund-based Facilities | Low |
| Non-fund-based facilities | Low |
| Proposed bank facilities | Low |

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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**Evaluating Corporate Governance**

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**Corporate Rating Methodology**

**The Rating Process**

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