Insecticides (India) Ltd

Credit rating report

FEBRUARY 2023

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Instruments and ratings

Total Bank Loan Facilities Rated	**Rs.650 Crore**
Long Term Rating	CRISIL A/Stable (Reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)

(Refer to Annexure 1 for facility and instrument details)

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Rating history

Date	Long Term	Fixed Deposit	Short Term	Rating Watch/Outlook
Dec 30, 2022	CRISIL A	-	CRISIL A1	Stable
Jan 13, 2022	CRISIL A	-	CRISIL A1	Stable
October 29, 2021	CRISIL A	-	CRISIL A1	Stable
July 16, 2020	CRISIL A	-	CRISIL A1	Stable
March 19, 2020	CRISIL A	-	CRISIL A1	Stable

Analytical approach and adjustments

Portfolio performance/networth/ gearing/parent or group support	Analytical treatment
Not applicable	

Rationale:

CRISIL Ratings has reaffirmed its 'CRISIL A/Stable/CRISIL A1' ratings on the bank facilities of Insecticides (India) Limited (IIL).

The business risk profile is supported by established brand presence across India with a strong network of over 6,000 distributors, expansion into new geographies and a diversified product portfolio. IIL reported healthy turnover of Rs 1,504 crore in fiscal 2022, as against Rs 1,420 crore in fiscal 2021. Revenue grew by 25.29% to Rs 1,143 crore in the first half of fiscal 2023, compared with Rs 912 crore in the corresponding period of fiscal 2022, driven by improved institutional sales and increased acceptance of newly launched products. The company is expected to clock revenue of more than Rs 1,700 crore in fiscal 2023. It launched four new products during the first half of fiscal 2023 and is committed to launch more products to keep in touch with the changing needs of the domestic agricultural market. (Gross revenue from the new products stood at Rs 244 crore in fiscal 2022, as against Rs 66 crore in fiscal 2018.)

Operating margin was healthy at 11% with return on capital employed (RoCE) maintained at 15% in fiscal 2022. The operating margin is expected at 11-12% in fiscal 2023 with normalisation of supply chain and incremental revenue from value-added products. Furthermore, the company has ploughed back profit from the business over the years, which led to strong networth of Rs 855 crore and gearing of 0.06 time as on March 31, 2022. With limited reliance on external debt, steady accretion to reserve and healthy profitability, the financial risk profile will remain comfortable over the medium term.The ratings continue to reflect the company’s healthy business risk profile, driven by the extensive experience of the promoters in the agrochemicals industry, strong brands, established industry presence and wide geographical reach in the domestic market. The ratings also factor in the company's comfortable financial risk profile. These strengths are partially offset by large working capital requirement and susceptibility to risks inherent in the agrochemicals industry, including ban on certain pesticides by the government.

Rating drivers

Supporting factors	Constraining factors
• Healthy business risk profile • Robust financial risk profile • Diversified revenue profile	• Large working capital requirement • Exposure to risks inherent in the domestic agrochemicals market

Outlook: Stable

IIL will continue to benefit from its strong market position in the domestic agrochemicals industry.

Rating sensitivity factors

Upward factors:

- Sustained net cash accrual of over Rs 150 crore, aided by increase in revenue from value-added products and improvement in operating margin to 15%
- Improvement in the working capital cycle, with reduction in GCA days below 230 days

Downward factors

- Further stretch in the working capital cycle with bank limit utilisation increasing to more than 85%, or large, debt-funded capex weakening the financial risk profile
- Decline in revenue below Rs 1,000 crore or operating margin falling below 9%

Company overview

Incorporated in 1996 and promoted by Mr Hari Chand Aggarwal and Mr Rajesh Aggarwal, IIL commenced operations in 2002. The company manufactures formulations and technicals for plant protection chemicals and household pesticides; its facilities are in Chopanki, Rajasthan; Samba and Udhampur, Jammu and Kashmir; and Dahej, Gujarat. It had an initial public offering in 2007 and its shares are listed on the Bombay Stock Exchange and the National Stock Exchange.

Key credit factors

Business risk profile

Healthy business risk profile, driven by the extensive experience of the promoters, strong brand positioning and wide geographical reach

The promoters have been in the agrochemicals industry for over three decades. Before setting up IIL, the chairman, Mr H C Aggarwal, was associated with HPM Chemicals and Fertilizers Ltd, which is in the same business. Over the years, IIL has developed an extensive portfolio of agrochemical products, consisting of pesticide, insecticide and herbicide formulations. Operations have been backward integrated with the commissioning of the company's technical plant at Dahej.

The business risk profile is supported by established brand presence across India with a strong network of over 6,000 distributors, expansion into new geographies and a diversified product portfolio.

IIL has traditionally focused on acquiring brands with high recall among farmers and has developed its own brands, such as Victor, Hijack, Indan, Pulsar and Green Label.

The company has maintained a healthy business risk profile backed by its established industry presence, introduction of new products in the domestic market and robust sales network. It generated revenue of Rs 1,504 crore in fiscal 2022, compared with Rs 1,420 crore in fiscal 2021. Revenue grew by 25.29% to Rs 1,143 crore in the first half of fiscal 2023 from Rs 912 crore in the corresponding period of fiscal 2022 mainly driven by institutional sales and increased acceptance of newly launched products. The company is expected to clock revenue of more than Rs 1,700 crore in fiscal 2023. The operating margin stood at 11-12% and RoCE at ~15% in fiscal 2022. The operating margin is expected at 11-12% over the medium term as well.

Exposure to risks inherent in the domestic agrochemicals market

Demand for agrochemicals is driven by agricultural production, which depends on monsoons. A substantial area under cultivation in India is still not well irrigated and depends on rainfall. Surplus or inadequate rainfall may affect the revenue and profitability of IIL. Furthermore, the agrochemicals industry is regulated by specific and separate registration processes in different countries. Changes in the export and import policies of these countries will affect Indian agrochemical exporters such as IIL. Ban on key molecules will be a monitorable.

Diversified revenue profile

The company has diversified revenue streams, with ~53% of the revenue coming from insecticides, 33% from herbicides and 11% from fungicides in fiscal 2022. Revenue diversity is augmented by presence in both branded formulations (70%) and institutional sales (27%). Its large product base in agrochemicals will enable further diversification in revenue aided by regular product launches. It caters to an extensive customer profile, which includes over 70,000 dealers across India.

Large working capital requirement

Substantial credit extended to farmers results in sizeable receivables. Also, the company is vulnerable to seasonality and irregular demand because of the vagaries of monsoon, along with dependence on imported raw materials, and hence maintains large inventory (173 days as on March 31, 2022). Gross current assets (GCAs) were at 238 days as on March 31, 2022. The working capital requirement will remain large over the medium term.

Financial risk profile

Capital structure was strong, as reflected in networth, adjusted gearing and total outside liabilities to tangible networth ratio of Rs 855 crore, 0.06 time and 0.61 time, respectively, as on March 31, 2022. Debt protection metrics were comfortable, as indicated by interest coverage and net cash accrual to total debt ratios of 31 times and 2.7 times, respectively, in fiscal 2022. Limited dependence on working capital debt and absence of significant debt-funded capital expenditure (capex) plan should support the financial risk profile over the medium term.

Financial policy

IIL has a conservative financial policy, as reflected in low gearing of 0.06 time as on March 31, 2022. The management has demonstrated a conservative stance towards contracting debt over the years. Steady accretion to reserve and moderate debt-funded capex should help improve gearing over the medium term.

Dividend policy

IIL has paid dividend of 20%-25% on share capital.

Derivatives

IIL hedges most of its foreign currency exposure. Hence, its cash flow is not expected to be impacted by fluctuations in foreign currency exchange rates.

Liquidity: Strong

Cash accrual, expected at Rs 130-160 crore per annum, will comfortably cover yearly debt obligation of Rs 2-6 crore over the medium term. Bank limit utilisation averaged 34% for the 12 months through October 2022. Internal cash accrual, cash and equivalent of ~Rs 21 crore as on September 30, 2022, and unutilised bank lines will be sufficient to meet debt obligation and working capital requirement.

Financial summary

(Standalone; CRISIL Ratings-adjusted numbers)				
		As on/ For the year ended March 31		
		2022 (Actual)	2021 (Actual)	2020 (Actual)
Net Sales	Rs million	1498	1412	1350
Operating Income	Rs million	1504	1420	1363
OPBDIT	Rs million	173	157	156
PAT	Rs million	107	93	86
Net Cash Accrual	Rs million	133	114	95
Equity Share Capital	Rs million	20	21	21
Adjusted Networth	Rs million	856	807	719
Adjusted Debt	Rs million	49	96	187
OPBDIT Margin	%	11.5	11.1	11.5
Net Profit Margin	%	7.1	6.6	6.3
RoCE	%	16.0	14.7	14.1
PBDIT / Int. & Finance Charges	Times	31.57	24.85	6.79
Net Cash Accrual / Adjusted Debt	Times	2.70	1.18	0.51
Adjusted Debt / Adjusted Networth	Times	0.06	0.12	0.26
Adjusted Debt / PBDIT	Times	0.29	0.64	1.17
Current Ratio	Times	1.97	1.86	1.80
Cash flow from operations	Rs million	137	145	217
TOL/ ANW	Times	0.61	0.75	0.78
Operating Income/Gross Block	Times	4.36	4.47	4.59
Gross Current Assets	Days	238	256	253
Debtors	Days	70	66	86
Inventory	Days	173	191	157
Creditors	Days	106	123	88

YTD Section (Standalone)

	Unit	**30 - Sep - 2022**	**30 - Sep - 2021**
-	**-**	**6 Months**	**6 Months**
		Actuals	**Actuals**

Operating Income	Rs Crore	1143	912
OPBDIT	Rs Crore	127	117
Net Profit	Rs Crore	83	76
Net Cash Accruals	Rs Crore	96	89
OPBDIT Margin	%	11.1	12.9
Net Margin	%	7.2	8.4
Interest Cover	Times	30.71	30.77

Annexure 1: Bank-Details of Facility Classes

1.Composite Working Capital Limit

#	Bank	Amount (Rs.Cr.)	Rating
a.	The Hongkong and Shanghai Banking Corporation Limited	160	CRISIL A / Stable
-	Total	160	-

2.Cash Credit

#	Bank	Amount (Rs.Cr.)	Rating
a.	HDFC Bank Limited	50	CRISIL A / Stable
-	Total	50	-

3.Proposed Working Capital Facility

#	Bank	Amount (Rs.Cr.)	Rating
a.		120	CRISIL A / Stable
-	Total	120	-

4.Working Capital Facility

#	Bank	Amount (Rs.Cr.)	Rating
a.	Citibank N. A.	160	CRISIL A / Stable
-	Total	160	-

5.Fund-Based Facilities

#	Bank	Amount (Rs.Cr.)	Rating
a.	ICICI Bank Limited	55	CRISIL A / Stable
-	Total	55	-

6.Letter of Credit

#	Bank	Amount (Rs.Cr.)	Rating
a.	HDFC Bank Limited	105	CRISIL A1
-	Total	105	-

Criteria details

Links to related criteria
CRISIL's Approach to Financial Ratios
CRISIL's Bank Loan Ratings – process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Rating criteria for chemical industry
CRISIL's Bank Loan Ratings
The Rating Process
Understanding CRISILs Ratings and Rating Scales

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