

NACL Industries Limited

(formerly known as 'Nagarjuna Agrichem Limited')



Ref: NACL/SEs/2017-18

06th October, 2017

BSE Limited

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

National Stock Exchange of India Ltd

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

Dear Sir,

Sub: CARE rating upgraded for Long Term and Short Term Bank Facilities of the Company – reg.

Ref : Security Code: 524709 - Symbol:NACLIND

In compliance with Regulations 30, and other applicable provisions and Schedules of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'), we would like to inform that, CARE has upgraded the rating for Long Term Bank Facilities to '**CARE A-**' Stable (Single A Minus; Outlook:Stable) from 'CARE BBB+'; positive (Triple B plus; Outlook: Positive) and Short Term Bank Facilities to '**CARE A2**' (A two) from 'CARE A3+' (A Three Plus).

The details CARE rating rationale issued on 05th October, 2017 is attached.

Thanking you

Yours faithfully

for **NACL Industries Limited**

Satish Kumar Subudhi

Company Secretary & Head –Legal

Encl: a/a

Regd. Office : Plot No. 12-A, 'C' Block, Lakshmi Towers, No. 8-2-248/1/7/78, Nagarjuna Hills, Punjagutta, Hyderabad - 500 082, Telangana, INDIA.
Phone : +91-40-33605100/123, Fax : +91-40-23358062 E-mail : info@naclind.com Website : www.naclind.com

CIN : L24219TG1986PLC016607

Factory-Technical :

Plot No. 177, Arinama Akkivalasa, Allinagaram
Post, Etcherla Mandal, Srikakulam - 532403, A.P.
Phone : +91-08942-231172, 300400 / 401
Fax : +91-08942-231171

Factory-Formulation : Unit - I, Unit - II

Ravulapalem Mandal, Ethakota-533238
East Godavari Dist., A.P.
Phone : +91-8855-305617 / 627
Fax : +91-8855-257276

R&D Centre :

Sy. No. 1710 & 1711, Anthireddyguda Road, Nandigaon
Village & Mandal, R.R.District, Telangana - 509228
Phone : +91-08548-305004
Fa x : +91-08548-305801

NACL Industries Limited (Erstwhile Nagarjuna Agrichem Ltd)

October 05, 2017

Facilities	Amount (Rs. crore)	Ratings¹	Rating Action
Long-term Bank Facilities	224.50 (reduced from 227.78)	CARE A-; Stable [Single A Minus; Outlook: Stable]	Revised from CARE BBB+; Positive [Triple B Plus; Outlook: Positive]
Short-term Bank Facilities	113.00	CARE A2 [A Two]	Revised from CARE A3+ [A Three Plus]
Total Facilities	337.50 (Rupees Three hundred and thirty seven crore and fifty lakh only)		

Detailed Rationale & Key Rating Drivers

The revision in the ratings of NACL Industries Limited takes into account improved financial performance during FY17 (refers to the period April 01 to March 31) marked by increase in the total operating income and profitability margins, realization of the pending insurance claim which led to easement of working capital and improvement in the operational performance. The ratings also factor in established track record of the company in the pesticide business, experienced management and diversified product range with presence across the domestic and international markets.

The ratings, however, are constrained by moderate overall gearing, dependence upon monsoon and climatic conditions, exposure to foreign exchange fluctuation risk and working capital intensive nature of the operation.

The ability of the company to scale up its operations, introduce new products in both technical and formulations segments, improve its profitability margins and manage its working capital efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Key rating strengths

Improved operational performance during FY17

During FY17, the capacity utilization of the company in technical and formulation divisions have been increased to 78% and 100% (from 55% and 92%) respectively, primarily on account of good monsoon compared to the last two years.

Stable growth in total operating income with improved profitability margins

The total operating income of the company has grown by ~6% i.e. from Rs.701.69 crore during FY16 to Rs.745.57 crore in FY17, primarily on account of better monsoon compared to the last two years. During Q1FY18, the company has achieved revenue of Rs. 181.87 crore as against Rs.179.09 crore in Q1FY17. The

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.

profitability margins of the company have improved during FY17 on account of improvement in the revenue, introduction of new products in the market and receipt of pending insurance claim.

Established track record and experienced management in pesticide industry

NACL has been engaged in the operation of manufacturing and selling of pesticides for more than two decades. Mr V Vijaya Shankar, Managing Director (MD) of the company has vast experience in various chemical industries and extensive experience in Fertilizer and Automobile sectors over the last three decades. The MD is supported by a team of qualified and experienced professionals.

Diversified product range and geographically low revenue concentration risk both from domestic and international market:

The company's products include the entire range of pesticides such as Insecticides, Fungicides and Herbicides that cater to all the pest problems of major crops grown in India. The company's product portfolio includes over 55 brands with a strong network of about 11,000 dealers across the country. In the total operating income the domestic sales to export sales is 85:15.

Key rating weakness

Moderate financial risk profile

The overall gearing of the company have improved from 1.48x as on March 31, 2016 to 1.25x as on March 31, 2017 on account of scheduled repayment of term debt and accretion of profits to networth. The debt coverage ratio total debt/GCA improved from 7.14x in FY16 to 6.07x in FY17. Further the interest coverage ratio of the company has also improved from 2.06x in FY16 to 2.31x in FY17.

Highly dependent upon 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. The large temporal and spatial variation in the rainfall during the season had adverse impact on the productivity and production of major kharif crops over the country except rice.

Exposure to foreign exchange fluctuation risk:

The company is engaged in export and import transactions which subjects it to risk associated with volatility in the exchange rates. On account of foreign exchange fluctuation, the company has incurred a net forex loss of about Rs. 0.26 crore during FY17.

Working capital intensive nature of the industry:

The working capital cycle continue to remain elongated. The average operating cycle for the company was at 146 days in FY17 as against 132 days in FY16, primarily on account of high inventory holding period and improved creditor period.

Analytical approach: Standalone

CARE has analyzed NACL's credit profile by considering the standalone financial statements as company doesn't have subsidiaries.

Applicable criteria:

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology – Pesticide Companies

Financial ratios – Non-Financial Sector

About the company

NACL Industries Ltd (Erstwhile Nagarjuna Agrichem Ltd; NACL) was incorporated in November 1986. The company has its presence in the agrochemical industry and is engaged in manufacturing of pesticides (viz. Herbicides, Insecticides, Fungicides); both technical and formulations. The company has presence both in domestic as well as exports market with major export destinations being Japan, USA, Australia, Switzerland, Belgium etc. The company has already registered few brand products in countries i.e. Myanmar, Ethiopia and Zambia and further it is in process of registering few more brands. NACL accessed primary capital market during 1993-94 in BSE and NSE on April 07, 2017. The company's installed capacity in technical division is 7,500 metric tons/kilo liters and 37,800 metric tons/kilo liters in formulation division.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	701.69	745.57
PBILDT	62.49	72.20
PAT	8.98	36.19
Overall gearing (times)	1.48	1.25
Interest coverage (times)	2.06	2.31

Status of non-cooperation with previous CRA: NA

Any other information: NA

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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 Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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.