



NACL Industries Limited

Ref: NACL/SE/2024-25

August 27, 2024

BSE Limited

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

Company Code: 524709

National Stock Exchange of India Ltd

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

Symbol: NACLIND

Dear Sir/Madam,

Sub: Intimation of Credit Rating — reg.

Pursuant to the Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform that, CRISIL, vide its letter dated August 26, 2024, has revised the credit rating assigned to the Long Term & Short Term Bank Facilities of NACL Industries Limited and NACL Spec-Chem Limited (a Wholly Owned Subsidiary of NACL). The details of the same are given herein below:

A) NACL Industries Limited - Rating Action:

Facility	Rating Type	Rating Action	Rated Amount
Bank Loan	Long Term Rating	CRISIL BBB+/Stable (Downgraded from 'CRISIL A-/Negative')	₹ 915 Crores
	Short Term Rating	CRISIL A2 (Downgraded from 'CRISIL A2')	

B) NACL Spec-Chem Limited - Rating Action:

Facility	Rating Type	Rating Action	Rated Amount
Bank Loan	Long Term Rating	CRISIL BBB/Stable (Downgraded from 'CRISIL BBB+/Negative')	₹ 175 Crores
	Short Term Rating	CRISIL A3+ (Downgraded from 'CRISIL A2')	

Kindly take the same into records.

Thanking you,

for **NACL Industries Limited**

Satish Kumar Subudhi

Vice President -Legal & Company Secretary

Encl: As above



Rating Rationale

August 26, 2024 | Mumbai

NACL Industries Limited

Ratings downgraded to 'CRISIL BBB+/Stable/CRISIL A2 '

Rating Action

Total Bank Loan Facilities Rated	Rs.915 Crore
Long Term Rating	CRISIL BBB+/Stable (Downgraded from 'CRISIL A-/Negative')
Short Term Rating	CRISIL A2 (Downgraded from 'CRISIL A2+')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank loan facilities of NACL Industries Ltd (NACL; a part of the NACL group) to '**CRISIL BBB+/Stable/CRISIL A2**' from '**CRISIL A-/Negative/CRISIL A2+**'.

The ratings downgrade reflects the continued pressure on NACL group's earnings profile due to lower than expected sales and continued pressure on its profitability margins. The group had reported net losses in three quarters of fiscal 2024; it has further reported an operating loss in the first quarter of fiscal 2025. Revenue declined to Rs 325 cr in Q1 of fiscal 2025 from Rs 457 cr in the previous quarter and is lower than Rs 376 cr reported for the corresponding quarter of previous fiscal.

Further the group has sizeable maturing debt obligations and given the weak performance during the first quarter of the fiscal, the ability of the group to achieve the projected revenue, profitability levels and improvement in debt coverage metrics remain the key monitorables.

Further, the auditors had made a qualified opinion in the fourth quarter of fiscal 2024 on trade receivables aggregating Rs 77.96 crore for which they received unreliable responses from the customers for which the management had appointed M/s Ernst and Young LLP to conduct a thorough forensic audit regarding the observations made by the statutory auditors regarding irregularities in trade receivables. The forensic audit has been completed and the net exposure on the receivables is now estimated at Rs. 19.78 crores (as against Rs. 18.8 crores already provided in Q4 FY24) and the group also has taken a legal opinion on the matter resulting in resolution of audit qualification.

The ratings continue to reflect the strong market presence and brand of NACL in the agrochemical space, supported by the extensive experience of the management team, well-established clientele, geographical diversification in revenue, and moderate financial risk profile. These strengths are partially offset by large working capital requirement, exposure to competition and susceptibility to regulatory changes and seasonality inherent in the agrochemicals sector.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of NACL and all its subsidiaries and associate companies. This is because all these entities, collectively referred to as the NACL group, are in the same line of business and have common promoters and strong business and financial linkages. Also, NACL holds a 26% stake in Nasense Labs Pvt Ltd and has been consolidated accordingly.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market presence:** Supported by an experienced management team, NACL has built a strong three-decade-long market presence in the agrochemicals segment. The management has established healthy relationships with customers across geographies, comprising established players in India and export markets, such as Syngenta Asia Pacific Pte Ltd, Saraswati Agro Chemicals India Pvt Ltd and Nissan Chemical Corporation. NACL sells a wide range of insecticides, fungicides, herbicides and plant growth regulators. Ability to develop products to meet upcoming demand could enhance growth over the medium term. Expertise of the promoters, their strong understanding of market dynamics and healthy relationships with customers and suppliers should continue to support the business.
- **Moderate financial risk profile:** The financial risk profile remained moderate with higher debt of around Rs 789 crore as on March 31, 2024, resulting in overall gearing of 1.6 times. Networth moderated to Rs 511 crore on account of the losses in fiscal 2024; however, reliance on working capital borrowing stood high. Though the working capital cycle is expected to improve with a better industry scenario likely in fiscal 2025, strengthening of the capital structure will remain

a key sensitivity factor. Debt protection metrics also weakened in fiscal 2024 owing to low profitability. However, with better profitability, debt protection metrics should improve in fiscal 2025.

Weaknesses:

- **Large working capital requirement:** The working capital cycle has elongated in fiscal 2024 owing to the weak industry scenario due to which the company had to provide extended credit to customers. Gross current assets were 248 days on March 31, 2024, driven by debtors of around 155 days (against 134 days a year ago). The company offers considerable credit in the domestic formulations business and has to maintain adequate inventory owing to the number of stocks keeping units, import of raw materials and seasonality in operations. The incremental working capital requirement is managed efficiently through a mix of cash accrual and bank borrowing. Nevertheless, operations will remain working capital intensive, especially in the biological segment, on account of the nature of the industry; prudent working capital management will be critical.
- **Exposure to competition, regulatory changes and seasonality in the agrochemicals sector:** The domestic agrochemical formulations industry has numerous organised players with regional presence. As NACL is into generic molecules, it faces intense competition from organised as well as unorganised players in the domestic market. Also, the domestic agrochemicals sector is dependent on the monsoon and level of farm income. Fortunes of this sector are, therefore, linked to the quantum, timing and distribution of rainfall in a year, exposing the players' revenue to seasonal trends. Besides, surplus or inadequate rainfall could impact profitability of players and lead to build-up in the working capital requirement. The business performance of NACL, like that of other agrochemical manufacturers, may also be impacted by regulatory changes, such as export and import policies, registration policies and product and environment safety requirements in India and abroad.

Liquidity: Adequate

Liquidity should remain supported by the ample surplus available in cash accrual and bank lines. Bank limit utilisation was moderate at 82% for the 12 months through May 2024. Cash accrual is projected at more than Rs 70 crore per annum, against yearly repayment obligations of around Rs 60-65 crore in fiscal 2025. Current ratio is estimated at 1.2 times on March 31, 2024.

Outlook: Stable

Outlook is stable as CRISIL Ratings believes the business performance to be pick up in the upcoming quarters with better demand from export market.

Rating sensitivity factors

Upward factors:

- Substantial and sustainable increase in revenue and operating margin, leading to net cash accrual more than Rs 95-100 crore
- Improvement in the financial risk profile, especially debt protection metrics and liquidity position

Downward factors:

- Revenue declining to less than Rs 1,800 crore or moderation in operating margin resulting in cash accruals less than Rs. 70 crores.
- Further stretch in the working capital cycle
- Any further provisions towards doubtful debtors/write-offs impacting the credit risk profile

About the Group

NACL, incorporated in 1986, manufactures and exports crop protection technical (active ingredient) and formulations. It manufactures all kinds of pesticides, insecticides, herbicides, fungicides, and other plant growth chemicals. The formulation business of the company is mainly in the Indian market, and it sells through a large retail dealer network spread across India; it also has a range of branded formulations. The company has two manufacturing units at Srikakulam and Ethakota in Andhra Pradesh and one research and development centre in Telangana. Ms K Lakshmi Raju is the promoter and Mr M Pavan Kumar manages the operations.

NSCL, established in April 2020, set up a manufacturing unit at Dahej Industrial Zone. The unit has installed capacity of 6,000 tonne per annum for manufacturing agrochemical technical and intermediate for domestic as well as export markets. Ms K Lakshmi Raju is the promoter.

The group reported consolidated revenue of Rs 325 cr and a net loss of Rs 20.8 cr in Q1 of fiscal 2025 as against revenue and net loss of Rs 375.9 cr and Rs 38.06 cr respectively in the corresponding quarter of previous fiscal.

Key Financial Indicators

As on/for the period ended March 31	Unit	2024	2023
Operating income	Rs crore	1778	2,105
Reported profit after tax (PAT)	Rs crore	-59	95
PAT margin	%	-3.31	4.51
Adjusted debt/adjusted networth	Times	1.59	1.37
Interest coverage	Times	0.21	3.80

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit ^{&}	NA	NA	NA	505	NA	CRISIL BBB+/Stable
NA	Letter of Credit	NA	NA	NA	180	NA	CRISIL A2
NA	Proposed Working Capital Facility	NA	NA	NA	52.62	NA	CRISIL A2
NA	Working Capital Demand Loan ^{%%}	NA	NA	NA	45	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	28-Feb-26	40	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	31-Jan-26	28.85	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	31-Dec-24	11.66	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	30-Jun-25	19.4	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	31-Jan-25	13.13	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	31-Mar-28	19.34	NA	CRISIL BBB+/Stable

[&] - Working capital demand loan and Pre&post shipment Credit are sublimits of Cash Credit.

^{%%} - CC and LC are sublimits of WCDL.

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
NACL Industries Limited	Full	Same line of business, common promoters and strong business and financial linkages. NACL holds a 26% stake in Nasense Labs Pvt Ltd and has been consolidated accordingly
LR Research Laboratories Private Limited	Full	
NACL Spec-Chem Limited	Full	
Nagarjuna Agrichem (Australia) Pty. Limited	Full	
NACL Multichem Private Limited	Full	

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Fund Based Facilities	LT/ST	735.0	CRISIL BBB+/Stable / CRISIL A2	23-07-24	CRISIL A2+ / CRISIL A-/Negative	07-08-23	CRISIL A/Negative / CRISIL A1	08-08-22	CRISIL A1 / CRISIL A/Stable	--	--	--
			--	02-05-24	CRISIL A2+ / CRISIL A-/Stable	27-07-23	CRISIL A1 / CRISIL A/Stable	--	--	--	--	
			--	02-02-24	CRISIL A2+ / CRISIL A-/Stable	--	--	--	--	--	--	
Non-Fund Based Facilities	ST	180.0	CRISIL A2	23-07-24	CRISIL A2+	07-08-23	CRISIL A1	08-08-22	CRISIL A1	--	--	--
			--	02-05-24	CRISIL A2+	27-07-23	CRISIL A1	--	--	--	--	
			--	02-02-24	CRISIL A2+	--	--	--	--	--	--	

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit ^{&}	35	SVC Co-Operative Bank Limited	CRISIL BBB+/Stable
Cash Credit ^{&}	11	IndusInd Bank Limited	CRISIL BBB+/Stable
Cash Credit ^{&}	75	Axis Bank Limited	CRISIL BBB+/Stable
Cash Credit ^{&}	33.68	Kotak Mahindra Bank Limited	CRISIL BBB+/Stable
Cash Credit ^{&}	35	YES Bank Limited	CRISIL BBB+/Stable
Cash Credit ^{&}	55	RBL Bank Limited	CRISIL BBB+/Stable

Cash Credit ^{&}	40	Doha Bank	CRISIL BBB+/Stable
Cash Credit ^{&}	125	HDFC Bank Limited	CRISIL BBB+/Stable
Cash Credit ^{&}	30	SBM Bank (India) Limited	CRISIL BBB+/Stable
Cash Credit ^{&}	5	Bank of Bahrain and Kuwait B.S.C.	CRISIL BBB+/Stable
Cash Credit ^{&}	34	Shinhan Bank	CRISIL BBB+/Stable
Cash Credit ^{&}	26.32	Kotak Mahindra Bank Limited	CRISIL BBB+/Stable
Letter of Credit	20	Axis Bank Limited	CRISIL A2
Letter of Credit	30	SBM Bank (India) Limited	CRISIL A2
Letter of Credit	30	YES Bank Limited	CRISIL A2
Letter of Credit	45	IndusInd Bank Limited	CRISIL A2
Letter of Credit	55	Bank of Bahrain and Kuwait B.S.C.	CRISIL A2
Long Term Loan	19.34	RBL Bank Limited	CRISIL BBB+/Stable
Long Term Loan	13.13	Bajaj Finance Limited	CRISIL BBB+/Stable
Long Term Loan	40	Bajaj Finance Limited	CRISIL BBB+/Stable
Long Term Loan	28.85	RBL Bank Limited	CRISIL BBB+/Stable
Long Term Loan	11.66	RBL Bank Limited	CRISIL BBB+/Stable
Long Term Loan	19.4	Doha Bank	CRISIL BBB+/Stable
Proposed Working Capital Facility	45	Not Applicable	CRISIL A2
Proposed Working Capital Facility	7.62	Not Applicable	CRISIL A2
Working Capital Demand Loan ^{%%}	45	Qatar National Bank (Q.P.S.C.)	CRISIL BBB+/Stable

& - Working capital demand loan and Pre&post shipment Credit are sublimits of Cash Credit.
%% - CC and LC are sublimits of WCDL.

Criteria Details

Links to related criteria

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Approach to Financial Ratios](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

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Rating Rationale

August 26, 2024 | Mumbai

NACL Spec-Chem Limited

Ratings downgraded to 'CRISIL BBB/Stable/CRISIL A3+'

Rating Action

Total Bank Loan Facilities Rated	Rs.175 Crore
Long Term Rating	CRISIL BBB/Stable (Downgraded from 'CRISIL BBB+/Negative')
Short Term Rating	CRISIL A3+ (Downgraded from 'CRISIL A2')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank facilities of NACL Spec-Chem Ltd (NSPL) to 'CRISIL BBB/Stable/CRISIL A3+' from 'CRISIL BBB+/Negative/CRISIL A2'.

The downgrade of NSPL is on account of a similar rating action on the parent, NACL Industries Ltd (NACL).

The ratings continue to reflect the extensive experience of the promoter in the agrochemicals industry and the strong support from the parent, NACL. These strengths are partially offset by average business and financial risk profiles and exposure to intense competition, regulatory changes and seasonality in the sector.

Analytical Approach

CRISIL Ratings has applied its parent notch-up criteria to factor in the support received from the parent, NACL.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of the promoter:** Supported by an experienced management team, NACL group has built a strong three-decade-long market presence in the agrochemicals segment. The customers are diversified across geographies and include established players in India and export markets. The group sells a wide range of insecticides, fungicides, herbicides and plant growth regulators. The ability to develop products to meet upcoming demand could enhance growth over the medium term. Expertise of the promoter, her strong understanding of market dynamics and healthy relationships with customers and suppliers should continue to support the business.
- **Strong support from parent:** NSCL is a fully owned subsidiary of NACL. The company benefits from financial, operational and managerial support from the parent. The NACL group has extended support to NSCL by enabling them to raise need-based funds through term debt. NACL has also given corporate guarantee to the debt facilities availed by NSCL.

Weaknesses:

- **Average business performance:** Business performance remained average, reflected in revenue of Rs 178.48 crore and operating margin of 6.2% in fiscal 2024. Revenue is expected to improve significantly to around Rs 225 crore in fiscal 2025, backed by better prices, improved capacity utilisation and introduction of new products. The operating margin is projected at above 12% over the medium term.
- **Weak financial risk profile:** NSCL has moderate financial risk profile, with moderately leveraged capital structure on account of debt-funded projects and moderate debt protection metrics. However, as the project has been completed and debt repayment has started, the capital structure should improve over the medium term with better accretion to reserve and reduction in term debt. NACL has brought in additional funds in the form of compulsory convertible debentures, which supports the financial risk profile of NSCL.
- **Exposure to competition, regulatory changes and seasonality in the agrochemicals sector:** The domestic agrochemical formulations industry has numerous organised players with regional presence. As the NACL group is into generic molecules, it faces intense competition from organised as well as unorganised players in the domestic market. Also, the domestic agrochemicals sector is dependent on monsoon and the level of farm income.

Liquidity: Adequate

Bank limit utilisation was moderate at 89% for the 12 months through May 2024. Cash accrual is expected at Rs 14-16 crore against yearly debt obligation of Rs 13-14 crore in fiscal 2025. Need-based funding support by the parent should boost

liquidity.

Outlook: Stable

Company will continue to benefit from the established relationship with customers and suppliers and the benefit of association with NACL.

Rating sensitivity factors

Upward factors

- Stabilisation of operations in the new plant and revenue more than Rs 400 crore with operating margin above 14%
- Improvement in the financial risk profile
- Upgrade in credit rating of the parent.

Downward factors

- Lower-than-expected revenue or profitability below 10%, resulting in cash accrual less than repayment obligation
- Any significant change in strategy of the parent, which could impact the business risk profile of NSCL, or downgrade in the credit rating of the parent.

About the Company

NSCL was incorporated in April 2020. It is a part of the NACL group and a wholly owned subsidiary of NACL. The company is set to manufacture agrochemical technical and intermediate for domestic as well as export markets with an installed capacity of 6,000 tonne per annum. Its facility is at Dahej Industrial Zone in Gujarat. Ms K Lakshmi Raju is the promoter.

Key Financial Indicators

As on/for the period ended March 31		2023	2022
Operating income	Rs crore	16.22	0.00
Reported profit after tax (PAT)	Rs crore	-8.97	-0.36
PAT margin	%	-46.46	-8834.15
Adjusted debt/adjusted networth	Times	-41.99	37.36
Interest coverage	Times	-0.31	-0.02

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Cash Credit*	NA	NA	NA	30.00	NA	CRISIL BBB/Stable
NA	Letter of Credit	NA	NA	NA	20.00	NA	CRISIL A3+
NA	Proposed Working Capital Facility	NA	NA	NA	2.86	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Mar-28	32.36	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Mar-28	89.78	NA	CRISIL BBB/Stable

* - WCDL and Pre&post shipment Credit are sublimits of CC.

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	155.0	CRISIL BBB/Stable	23-07-24	CRISIL BBB+/Negative	07-08-23	CRISIL A-/Negative	03-10-22	CRISIL BBB+/Stable		--	--
			--	02-02-24	CRISIL BBB+/Stable	27-07-23	CRISIL A-/Stable		--	--	--	

Non-Fund Based Facilities	ST	20.0	CRISIL A3+	23-07-24	CRISIL A2	07-08-23	CRISIL A2+		--		--	--
			--	02-02-24	CRISIL A2	27-07-23	CRISIL A2+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit ^{&}	20	HDFC Bank Limited	CRISIL BBB/Stable
Cash Credit ^{&}	10	Axis Bank Limited	CRISIL BBB/Stable
Letter of Credit	20	Axis Bank Limited	CRISIL A3+
Proposed Working Capital Facility	2.86	Not Applicable	CRISIL BBB/Stable
Term Loan	32.36	Axis Bank Limited	CRISIL BBB/Stable
Term Loan	89.78	HDFC Bank Limited	CRISIL BBB/Stable

& - WCDL and Pre&post shipment Credit are sublimits of CC.

Criteria Details

Links to related criteria
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Approach to Financial Ratios
Rating criteria on Financial risk framework for manufacturing and services sector companies
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for rating short term debt

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