

## Aimco Pesticides Limited

July 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	16.00	CARE BB+; Stable / CARE A4+	Revised from CARE BBB-; Stable / CARE A3
Short Term Bank Facilities	9.00	CARE A4+	Revised from CARE A3

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating downgrade action taken for bank facilities of Aimco Pesticides Ltd (APL) considers the Indian crop-protection industry which have ran into non-steady weather, with inventory build-up at dealer levels creating headwinds in both the domestic as well as export markets. The ratings are also constrained by modest scale of operations with low profit margins, working capital intensive nature of operations with high dependence on creditors. The ratings are also tempered by susceptibility of profitability margins to fluctuation in input prices and risks inherent in domestic agrochemical industry also exposed to intense competition. Global agrochemical companies reported subdued results in in FY23 largely led by muted demand across key regions. Weak demand environment coupled with high channel inventory in key markets further impacted product placements and exerted pressure on realizations. The company has incurred loss for FY23 and is expected to incur loss for Q1FY24 with low margins going forward.

The ratings are however supported by from extensive experience of the promoters in agrochemicals industry, diversified revenue stream with presence across agrochemical value chain and established customer base.

### Rating sensitivities: Factors likely to lead to rating actions:

#### Positive Factors

- Improvement in scale of operations beyond Rs.500 crores along with sustained operating margin above 7%.

#### Negative Factors

- Decline in scale of operations below Rs. 200 crore and PBILDT margin below 4% on consistent basis.
- Any ban on key molecules of the company
- Significant debt funded capex.

### Analytical approach: Standalone

### Outlook: Stable

CARE Edge believes that Aimco Pesticides Limited (APL) will continue to experience lower liquidation of stock, inventory build-up, higher sales returns and weak export demand. The financial risk profile is expected to deteriorate on account of lower margins & moderate scale of operations, with capital structure and coverage indicators.

### Key Weaknesses:

#### Low profitability due to limited value addition

The company is mainly involved in manufacturing of technical products & branded formulations. Technical products is a low margin business as compared branded formulations. In FY23 & going forward, the company is planning to shift its focus on branded formulations. The company is exposed to volatility in input prices and has limited pricing power. The company has incurred PAT loss for FY23 of Rs. 2.01 crores. The PBILDT margins had remained in the range of 4-5% in the past which has declined to 1.59% for FY23 due to weak demand environment coupled with high channel inventory in key markets further impacted product placements and exerted pressure on realizations.

The margins are expected to improve marginally in FY24 vis a vis FY23 on account of recovery in the industry over the period with APL adopting the strategy to stock less inventory.

#### High working capital intensity

The operations of the company are working capital intensive in nature. Since half of the raw material requirements are imported the company has to maintain inventory of around 3-4 months. Further given the seasonality of the sales, the company is required to maintain high finished goods inventory at the beginning of the kharif and rabi seasons. The inventory period however has deteriorated in FY23 as compared to FY22. The average creditor period remains high as the company gets clean credit of 90-120 days from its suppliers. The operating cycle is low due to late payment to creditors. The company had managed to fund its working capital gap by internal accruals and stretching the creditors and utilisation of working capital funds.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Exposure to risks inherent in the domestic agrochemicals market**

The demand for agrochemicals is driven by agricultural production, which depends on monsoon. A substantial area under cultivation in India is still not well irrigated and depends on the monsoon for water requirement. Surplus or inadequate rainfall could affect the domestic revenue and profitability of APL. Furthermore, the agrochemicals industry is regulated by specific and separate registration processes in different countries. Changes in the export and import policy of these countries will affect Indian agrochemical exporters. Ban on any key molecules will also be monitorable.

**High dependence on imports from China**

The company sources significant quantity of raw materials from China. Further, it is dependent on China for few of its end products which is completely manufactured using imported raw material. The company wants to shift its reliance from China & depend more on local sources. Thus, the company is exposed to concentration risk. Any significant disruption in supply from China can have an adverse impact on the company's operations, though company is finding substitutes from local markets to cater it requirements for raw materials to avoid this.

**Key Strengths:****Extensive experience of promoters in agrochemical industry**

Aimco Pesticides Limited (APL) is a diversified player in the Agrochemicals space. The promoter Mr. Pradeep P Dave have more than four decades of experience in the pesticides Industry and serves as the President of Pesticides Manufacturers & Formulators Association of India (PMFAI). He also gets supports from other directors having 20+ years' experience who looks after various aspects of the company.

**Diversified revenue stream with presence across agrochemical value chain**

The company is into manufacturing, marketing & exporting technical grade chemicals & formulations of Insecticides, Fungicides and Herbicides. The revenue to the extent of around 50% is from exports. The product portfolio consists of 11 technical grade chemicals, 90+ formulations, 300+ branded SKUs. Technical constitute around 59% (vis a vis 70% in FY22), contribution from branded formulations was 29% in FY23 vis a vis 22% in FY22, contribution from B2B formulations was 9% in FY23 as compared to 2% in FY22. The company has obtained license/registrations for 200+ products & expects to grow over a period.

**Wide distribution network**

The company has established a wide distribution network with over 925 dealers/distributors spread across 8 states in India namely West Bengal, Odisha, Tamil Nadu, Gujarat, Maharashtra, Rajasthan & Andhra Pradesh. Further, the company is a good player in the global market exporting to around 45 countries, naming a few would be Australia, Malaysia, USA, Brazil, Africa & others.

**Diversified customer base with track record of repeat business**

The company has a diversified customer profile with top ten customers contributing to more than 50% of the total revenue during FY23. The company has established long-term relationships with most of its customers resulting into repeat business.

**Comfortable capital structure along with solvency indicators**

The company has low reliance on external borrowings to fund the working capital requirements. In the past the company had availed term loan from Kotak Mahindra Bank for funding its capex requirements, though the company has comfortable net worth, due to which the capital structure and coverage indicators are moderately comfortable. The future capex is expected to be funded by internal accruals.

**Liquidity: Stretched**

The liquidity position of the company is stretched with Gross Cash Accruals (GCA) of Rs. 1.51 crores for FY23. CARE Ratings expects the GCA to remain in the same range for FY24 as well. It has cash balance of Rs. 2.67 crores as of June 2023 with term loan obligations of Rs. 1.53 crores for FY24. The company has increased its reliance on external debt to fund its capex & working capital requirement. The current ratio of the company is 1.03x for FY23. The company had cash balance of 0.97 Crores as on 31<sup>st</sup> March 2023. The operating cycle was 30 days in FY23 as compared to 12 days in FY22, due to elongation of inventory days & receivables. The company funds its working capital requirement through internal accruals & by stretching its creditors.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

**Applicable Criteria:**[Policy on default recognition](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Credit Watch](#)[Short Term Instruments](#)[Manufacturing Companies](#)[Pesticide](#)[Policy on Withdrawal of Ratings](#)**About the company and industry****Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity chemicals

Founded in 1987 by Mr. Pradeep Dave & JP Dave, Aimco Pesticides Limited is a diversified agrochemical company that manufactures, markets, and exports technical grade chemicals & formulations of insecticides, fungicides, and herbicides. The company predominantly focuses on technical grade chemicals with the same contributing around 59% of total revenue in FY23. Formulations contribute around 29% of total revenue in FY23. The technical chemicals are mostly exported (around 50% of total sales are exported) and the major export destinations are Australia, Malaysia, USA, Brazil, and Africa. The company operates out of one manufacturing unit located at Lote Parshuram, Ratnagiri in the state of Maharashtra with installed capacity of 18,500 MT per annum.

AIMCO Pesticides Limited has been listed with the Bombay Stock Exchange since 1993. As on March 31, 2023, the Company has three wholly owned subsidiary companies viz. Aimco Ecoscience Limited, Aimco KR Agro Private Limited and Aimco International FZE.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24
Total operating income	312.51	207.13	NA
PBILDT	18.58	3.16	NA
PAT	10.54	-2.01	NA
Overall gearing (times)	0.00	0.32	NA
Interest coverage (times)	12.60	1.31	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:** NA

**Disclosure of Interest of Managing Director & CEO:** NA

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-Term loan		-	-	2023	2.50	CARE A4+
Fund-based/Non-fund-based-LT/ST		-	-	-	16.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-BG/LC		-	-	-	5.50	CARE A4+
Non-fund-based - ST-Forward Contract		-	-	-	1.00	CARE A4+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	16.00	CARE BB+; Stable / CARE A4+	-	1)CARE BBB-; Stable / CARE A3 (06-Oct-22)	-	-
2	Fund-based - ST-Term loan	ST	2.50	CARE A4+	-	1)CARE A3 (06-Oct-22)	-	-
3	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A4+	-	1)CARE A3 (06-Oct-22)	-	-
4	Non-fund-based - ST-BG/LC	ST	5.50	CARE A4+	-	1)CARE A3 (06-Oct-22)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities - NA****Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - ST-Term loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Forward Contract	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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