Press Release

Dhanuka Agritech Limited

Ratings of [ICRA]A+ (stable) and [ICRA]A1+ reaffirmed for bank facilities of Dhanuka Agritech Limited; rated amount enhanced

Rating

	Amount In Crore	Rating Action As on December 2014
Fund Based Limits	50.0	[ICRA]A+ (stable) *reaffirmed*
Non Fund Based Limits	50.56 (enhanced from 50.0)	[ICRA]A1+ *reaffirmed*

ICRA has reaffirmed the long-term rating of Dhanuka Agritech Limited (DAL)[1] at [ICRA]A+ (pronounced ICRA A plus) for Rs. 50.0 crore[2] fund based facilities. The outlook for the long-term rating is stable. ICRA has also reaffirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) for an enhanced amount of Rs. 50.56 crore (enhanced from Rs. 50.0 crore) non-fund based limits of DAL.

The rating action takes into account the steady revenue growth reported by DAL in FY14 and H1-FY15, driven by launch of new products as well as increase in sales volume and average realisations. The growth in turnover coupled with increased revenue contribution from speciality products (formulations manufactured under tie-ups with established international technical manufacturers), lower marketing expenses and lower foreign exchange losses have led to an improvement in the profitability margins, further strengthening the company's internal accrual generation. Steady robust internal accrual generation has led to low reliance on debt for funding the working capital requirements, thereby translating into low gearing (0.12 times as on 31st March 2014 and 0.02 times as on 30th September 2014) and strong debt protection metrics (interest coverage of 29 times, Total debt/OPBDITA of 0.3 times and NCA/Total Debt of 189% for FY14). DAL remains focused to improve its product portfolio, towards which it has entered into more technical tie-ups and also developed a healthy pipeline of speciality products, which are likely to be rolled out over the next 2-3 years and are expected to drive the revenue growth and improvement in margins of the company. However registration of these products is a lengthy process requiring development/marketing expenses; and revenue generation from the same is contingent on their market acceptance. The ratings also continue to factor in the company's established operational track record and long experience of the promoters in the agrochemical industry; DAL's established brand and well entrenched distribution network; and its long standing associations with reputed international technical manufacturers, with whom consistent tie-ups have been forged, many times

[1] *For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

For Dhanuka Agritech Ltd.

Company Secretary

on exclusive basis, for new products. DAL's diversified presence across all the regions of the country and across product categories largely mitigates risks related to adverse demand for any particular geography, crop or chemical. ICRA has also taken note of the steady pace execution for the company's upcoming facility in Keshwana, Rajasthan, which is likely to commence commercial production in Q1-FY16.

The ratings however are constrained by vulnerability of the industry participants including DAL to adverse changes in agro-climatic conditions; as also demonstrated by the moderation of revenue growth during the current financial year due to a relatively weak monsoon season. The ratings also factor in the inherently high working capital intensity of the business on account of high inventory and debtor levels; competitive intensity of the industry and DAL's exposure to regulatory risk arising from the possible restrictions on the use of hazardous pesticides. Additionally the company's profitability is susceptible to adverse movement in foreign exchange rate as it is dependent on imports for meeting a sizeable part of its raw material requirement; and raw material price and availability risk, in the absence of any backward integration (manufacturing of technicals). For one of the large-selling product of the company, the technical manufacturer has recently entered into a tie-up with another formulator and thus DAL would be exposed to competitive pressures. Although it is noted that DAL has the first-mover advantage.

Going forward, DAL's ability to maintain its revenue growth and profitability margins through successful rollout of planned products; and manage its working capital intensity would be the key rating sensitivities.

Company Profile

Dhanuka Agritech Ltd. (DAL) is a part of the Delhi based Dhanuka Group and engaged in the formulation and marketing of agrochemicals like insecticides, pesticides, herbicides etc. The company has manufacturing facilities in Gurgaon (Haryana), Sanand (Gujarat) and Udhampur (Jammu and Kashmir). The company is also in the process of setting up a new manufacturing facility in Rajasthan. In addition to the agrochemical business; DAL is also engaged in the seeds business, though its contribution to the total turnover has remained modest.

Recent Results

For FY2014, the company has achieved an operating income of Rs. 738.4 crore and a Profit After Tax of Rs. 93.1 crore. DAL has achieved an operating income of Rs. 455.8 crore and a Profit After Tax of Rs. 62.2 crore in H1-FY2015 (as per provisional financial results).

For Dhanuka Agritech Limited

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Shubha Singh
Company Secretary

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