

Rating Update

November 29, 2018 | Mumbai

Neogen Chemicals Limited

Update as on November 29, 2018

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

- Inventory management and profitability
- Capital expenditure (capex) plans and their funding
- Sustenance of revenue and profitability

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL seeks regular updates from companies on the business and financial performance. CRISIL is, however, awaiting adequate information from Neogen Chemicals Ltd (NCL).which will enable us to carry out the rating review. CRISIL will continue provide updates on relevant developments from time to time on this credit.

CRISIL also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the company

Neogen, incorporated by Mr Haridas Kanani in 1991, manufactures bromine and lithium-based organic and organo-metallic compounds, used in the pharmaceutical, agricultural chemical, and engineering industries. The company has a manufacturing unit at Mahape in Navi Mumbai and Vadodara (Gujarat).

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Rating Rationale

August 11, 2017 | Mumbai

Neogen Chemicals Limited

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

Rating Action

Total Bank Loan Facilities Rated	Rs.125 Crore (Enhanced from Rs.99 Crore)
Long Term Rating	CRISIL BBB/Stable (Upgraded from 'CRISIL BBB-/Stable')
Short Term Rating	CRISIL A3+ (Upgraded from 'CRISIL A3')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its ratings on the bank facilities of Neogen Chemicals Limited (NCL) to **'CRISIL BBB/Stable/CRISIL A3+'** from 'CRISIL BBB-/Stable/CRISIL A3'.

The upgrade reflects expected improvement in its business risk profile driven by ramp up in operations and profitability expected in 2017-18 followed by capacity enhancements for Bromine and Lithium derivatives. Neogen intends to leverage the established presence in the specialty chemical segment with diverse customer profile in the domestic and export business with its enhanced capacities set in. The company's operations have already scaled up since commencement of its Vadodara plant. Also operating profitability has witnessed an improvement to 17.4% which is expected to remain at above 16% levels going forward.

Improved scale and profitability is expected to improve cash accruals significantly which will help improve the capital structure which was otherwise moderated due to debt funded capex, thus supporting financial risk profile. Further financial flexibility is also supported by its debt repayments being back ended giving the company enough time to ramp up its operations in its enhanced capacities.

CRISIL's ratings continue to reflect the company's established presence in the specialty chemical segment, and healthy operating efficiency coupled with moderate financial risk profile. These strengths are partially offset by large working capital requirement and susceptibility of profitability to volatility in raw material prices.

Key Rating Drivers & Detailed Description

Strengths

* **Established presence in the specialty chemical segment, and healthy operating efficiency:** Extensive experience of the promoter, and the company's proven track record in developing bromine and lithium derivatives, will continue to support the business risk profile. Research and development initiatives have enabled the shift in focus to more niche, high value-added products, from bulk bromine-based compounds in the 1990s. Constant efforts to control the cost of production per unit, have helped maintain healthy operating margin, despite the increasing competition.

* **Moderate financial risk profile:** Financial risk profile is marked by a sizeable network, modest gearing and healthy debt protection metrics. Network has crossed Rs 35 crore, while gearing was moderate at 1.7 times as on March 31, 2017. Debt protection metrics were healthy, with interest coverage and net cash accrual to total debt ratios estimated at 2.8 times and 0.15 time, respectively, in fiscal 2017. With gradual repayment of term debt obligations, the capital structure is expected to improve going forward.

Weaknesses

* **Large working capital requirement:** Operations are highly working capital intensive, as reflected in gross current assets of 280 days estimated as on March 31, 2017, driven by moderate receivables and large inventory. However, the receivables and inventory days are expected to improve in the range of 80-90 days and 130-135 days going forward.

* **Susceptibility of profitability to volatility in raw material prices:** Movement in demand and supply of lithium and bromine may result in adverse fluctuation in prices in the domestic and/or international markets, thus impacting profitability margins of Neogen.

Outlook: Stable

CRISIL believes Neogen will continue to benefit from its established presence in the specialty chemicals industry, and longstanding relationship with customers. The outlook may be revised to 'Positive' if a better than expected growth in revenue and profitability leads to higher net cash accrual, and thus, strengthens the financial risk profile. The outlook may be revised to 'Negative' if significantly low cash accrual, or any larger than expected debt contracted to meet the working capital requirement or sudden capital expenditure, weakens the financial risk profile.

About the Company

Neogen, incorporated by Mr Haridas Kanani in 1991, manufactures bromine and lithium-based organic and organo-metallic compounds, used in the pharmaceutical, agricultural chemical, and engineering industries. The company has a manufacturing unit at Mahape in Navi Mumbai and Vadodara (Gujarat).

The company reported a profit after tax (PAT) of Rs 8.03 cr on operating income of Rs 110.7 cr in 2016-17, as against a PAT of Rs 5.6 cr on operating income of Rs 100.8 cr in 2015-16.

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	47.50	CRISIL BBB/Stable
NA	Corporate loan	NA	NA	Jun-2018	1.5	CRISIL BBB/Stable
NA	Letter of credit	NA	NA	NA	28.0	CRISIL A3+
NA	Proposed cash credit limit	NA	NA	NA	11.75	CRISIL BBB/Stable
NA	Term loan	NA	NA	Oct-2023	26.25	CRISIL BBB/Stable
NA	Proposed term loan	NA	NA	NA	10	CRISIL BBB/Stable

Annexure - Rating History for last 3 Years

	Current			2017 (History)		2016		2015		2014		Start of 2014
Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	97	CRISIL BBB/Stable		No Rating Change		No Rating Change		No Rating Change	23-09-14	CRISIL BBB-/Stable	CRISIL BB+/Stable
Non Fund-based Bank Facilities	LT/ST	28	CRISIL A3+		No Rating Change		No Rating Change		No Rating Change	23-09-14	CRISIL A3	CRISIL A4+

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	47.5	CRISIL BBB/Stable	Cash Credit	37.5	CRISIL BBB-/Stable
Corporate Loan	1.5	CRISIL BBB/Stable	Corporate Loan	4	CRISIL BBB-/Stable
Letter of Credit	28	CRISIL A3+	Letter of Credit	18	CRISIL A3
Proposed Cash Credit Limit	11.75	CRISIL BBB/Stable	Proposed Cash Credit Limit	13.25	CRISIL BBB-/Stable
Proposed Term Loan	10	CRISIL BBB/Stable	Term Loan	26.25	CRISIL BBB-/Stable
Term Loan	26.25	CRISIL BBB/Stable	--	0	--
Total	125	--	Total	99	--

Links to related criteria

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

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