February 05, 2024

Willowood Industries Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based - Term loans	145.00	145.00	[ICRA]BBB+(Stable); reaffirmed
Long term/Short term: Fund based/Non-fund-based limits	88.00	88.00	[ICRA]BBB+(Stable)/ [ICRA]A2; reaffirmed
Long term/Short term unallocated	17.00	17.00	[ICRA]BBB+(Stable)/ [ICRA]A2; reaffirmed
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings of Willowood Industries Private Limited (WIPL/the company) factor in the strong parentage of Willowood Chemicals Limited (WCL, rated [ICRA]A (Stable)/[ICRA]A2+) and its strategic importance to WCL, given the company is an extended arm of its parent company.

WIPL also benefits from its established customer relationships and WCL's track record in the agrochemical industry spanning nearly three decades. The Willowood Group is present across the entire agrochemical value chain and has a sizeable pool of registered products under Sections 9(3) and 9(4) of the Insecticides Act as well as its own pool of patented products. It has a network of over 12,000 distributors in the domestic market, supported by established brands in the retail segment, and a reputed clientele in the trading and toll manufacturing segments. ICRA also notes that the company has already received TIM registration for four molecules.

The ratings are, however, constrained by the delay in the project ramp-up due to unfavourable market conditions and the vulnerability of the company's operations to agro-climatic risks, the working capital-intensive operations along with foreign exchange risks owing to the significant dependence on imports, particularly from China, for raw material. The company also remains exposed to regulatory risk as it manufactures agrochemicals which are hazardous in nature and are heavily regulated by Government authorities.

ICRA notes that the company has commercialised production from both the phases at its Dahej plant (Phase 1 in December 2022 and Phase 2 in December 2023), which reduces the project risk associated with the construction of the AI manufacturing plant, although there was a delay at the start of commercial production. ICRA notes that the project costs have been revised to around Rs. 560 crore from Rs. 330 crore earlier, partially due to the cost escalation caused by commodity price inflation and the change in the scope of project. The incremental costs are being funded using a mix of debt and internal accruals and a major part of the incremental capex has been funded using equity funding from WCL which has kept the reliance on external debt in line with the earlier levels.

ICRA notes that once the operations at WIPL ramp up, the backward integration will improve WCL's margins and reduce its import dependence over the medium term. While the plants have been commissioned, there have been delays in the commercialisation of the production and ICRA will continue to monitor the stabilisation of the already commissioned project. Further, WIPL's ability to keep up with competition by significantly scaling up the operations and achieving further geographic and customer diversification will remain crucial for an overall improvement in the credit profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's credit profile will remain stable, driven by the its parentage and the expected ramp-up of the plants which will support the cash accruals.

Key rating drivers and their description

Credit strengths

Part of Willowood Group with promoters having extensive experience in agrochemical industry - WIPL is part of the Willowood Group which has a long and established track record in the agrochemical industry. The Group was promoted by Mr. Vijay Mundhra and Mr. Parikshit Mundhra in 2006. Mr. Vijay Mundhra is the founder of the Hong-Kong based Willowood Group and has about three decades' experience in the agrochemical industry. The Willowood Group has a customer base in over 50 countries across Africa, Asia, Europe, Brazil, South America and North America and is involved in the production and distribution of pesticides and other crop protection chemicals around the globe.

Wide distribution network and diversified customer base – The Group is present across the agrochemical value chain. Further, WIPL's product portfolio includes several active ingredients (AIs) in insecticides, herbicides, fungicides, as well as plant growth regulator products. Over the years, the Willowood Group has established a wide distribution network with over 12,000 dealers/distributors across ~18 states in India. The network is further supported by a team of in-house marketing executives and field assistants. The Group has also diversified into the B2C and B2B segments. Further, the Group has established long-term relationships with most of its customers and every year receives a large number of repeat orders from its existing customers.

Low offtake risks as major portion of product will be captively consumed – The project will also serve as a backward integration for WCL's units, which reduces the offtake risk. WCL meets majority of its requirement for AIs through imports from China. Hence, the Group should benefit from the backward integration into manufacturing AIs or technicals as a major portion of WIPL's production is expected to be consumed within the Group.

Credit challenges

High dependence for procurement from China; any significant disruption can impact operations - For the production undertaken by the company, a significant proportion of the procurement is from its affiliate companies based in Hong Kong and China. Given the strong global presence of the Willowood Group, the sourcing of raw materials for AIs becomes simpler. Additionally, the company imports directly from multinational companies as well as procures products from the domestic market from reputed customers. While China continues to maintain a major share in global agrochemical trade, there have been disruption in supplies in the past. Any significant disruption in supply from China can have an adverse impact on the Group's operations and profit margins.

Regulated nature of agrochemical industry - The agrochemical industry is highly regulated in the domestic market with stringent norms for registering products to be produced and sold in India. The products remain susceptible to bans or restrictions owing to their poisonous nature and thus the industry has to ensure the products are compliant with the regulatory norms.

Subdued ramp-up of the project - WIPL has set up a production facility for AIs at Dahej (Gujarat). The project is divided into two phases and five plants. The first phase (plants I, III and IV) was commissioned in December 2022, though the commercial production was delayed by six months. The second phase (plants II and V) was commissioned in December 2023. The project cost has increased to ~Rs. 560 crore mainly due to changes in the scope of project. Till September 2023, the company has already incurred around Rs. 565 crore of capex, inclusive of GST of Rs. 51 crore. For the balance capex of Rs. 45-50 crore, which is expected to be incurred in the current fiscal i.e., FY2024, the company may avail additional debt from the existing lenders or infuse further equity. The scaling of operations at the new technical facility remains a key monitorable.

Exposure to agro-climatic risks - As the share of irrigated (by dams/canals/wells) area is low in India, most regions in India depend on the monsoons. Poor monsoons translate into slower agrochemical offtake and, therefore, affect the performance of agrochemical entities. However, the risk for the company is mitigated, to some extent, by the Group's diversified geographical presence across ~18 states.

Liquidity position: Adequate

WIPL's credit profile is expected to remain adequate, going forward, with a ramp up in production which will support the cash generation and the sanctioned working capital facilities that will help meet the working capital requirements. ICRA expects enhanced promoter support in a scenario of liquidity mismatches which along with the moratorium on repayments in the near term will keep the liquidity profile adequate.

Rating sensitivities

Positive factors – A ICRA could upgrade WIPL's ratings if the company is able to stabilise and scale up the operations while demonstrating a healthy profitability and credit profile. The ratings may also be upgraded if the credit profile of the parent improves.

Negative factors – Pressure on WIPL's ratings could arise if the company is unable to ramp up the plant's operations in a timely manner, and/or the revenue and profitability is weaker-than-expected, having an adverse impact on the company's overall credit profile. Further, the rating could be under pressure if the parent company's credit profile deteriorates, and/or the linkages between the parent and the company weaken.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology: Agrochemicals Industry
Parent/Group support	Group company: Willowood Chemicals Limited The ratings consider the likelihood of the parent, WCL, extending support to WIPL, should the need arise. The analyst has followed a parent support uplift approach while rating WIPL's bank lines with WCL as the parent. WIPL is a wholly-owned subsidiary of WCL
Consolidation/Standalone	Standalone

About the company

Willowood Industries Private Limited (WIPL), incorporated in FY2020, is a part of the Willowood Group which started its operations from Hong Kong in 1991 and gradually expanded to other countries, including India, China, USA and Africa.

WIPL has set up a new production facility for active ingredients (AI)s at Dahej (Gujarat). The project is divided into two phases and five plants. The first phase (plants I, III and IV) was commissioned in December 2022, though commercial production was delayed by six months. The second phase (plants II and V) was commissioned in December 2023. The total installed capacity of the plant is 15.5 TPD. WIPL plans to manufacture 25 products now and expand the portfolio to 35-40 products.

Key financial indicators (audited)

WIPL	FY2023	H1FY2024*
Operating income	3.9	18.5
PAT	(6.7)	(23.7)
OPBDIT/OI	-127.3%	-68.4%
PAT/OI	-172.7%	-128.0%
Total outside liabilities/Tangible net worth (times)	1.40	-
Total debt/OPBDIT (times)	(57.97)	-
Interest coverage (times)	(8.51)	(3.85)

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

WCL Consolidated	FY2022	FY2023
Operating income	1460.3	1813.1
PAT	83.2	48.7
OPBDIT/OI	13.1%	9.9%
PAT/OI	5.7%	2.7%
Total outside liabilities/Tangible net worth (times)	0.62	0.89
Total debt/OPBDIT (times)	2.39	4.09
Interest coverage (times)	7.51	4.53

Source: Company, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 05, 2024	Jun 26, 2023	-	-	-
1	**Term loans**	Long term	145.0	141.5	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	-	-
2	**Fund based/Non-fund based limits**	Long term and short term	88.00	--	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB+ (Stable)/[ICRA]A2**	-	-	-
3	**Unallocated limits**	Long term and short term	17.00	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]BBB+ (Stable)/[ICRA]A2**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long term/Short term: Fund based/Non-fund based limits	Simple
Long term/Short term: Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2022	NA	FY2029	145.0	[ICRA]BBB+(Stable)
NA	Fund-based/Non-fund based Limits	NA	NA	NA	88.0	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Unallocated limits	NA	NA	NA	17.0	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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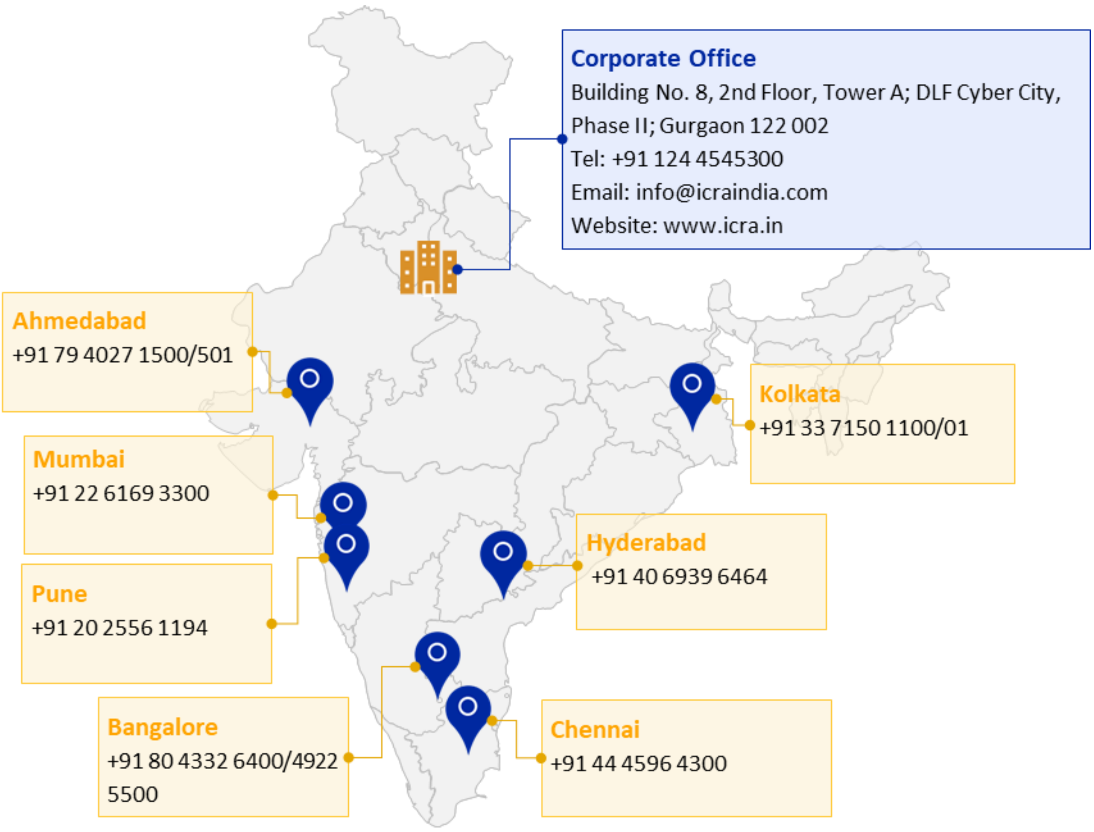

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