

Management Discussion and Analysis

GLOBAL ECONOMY

Economic growth accelerated in more than half the world's economies in both 2017 and 2018. Developed economies expanded at a steady pace of 2.2 per cent in both years, and growth rates in many countries have risen close to their potential, while unemployment rates in several developed economies have dropped to historical lows. Among the developing economies, the regions of East and South Asia remain on a relatively strong growth trajectory, expanding by 5.8 per cent and 5.6 per cent, respectively in 2018. Many commodity-exporting countries, notably fuel exporters, are continuing a gradual recovery, although they remain exposed to volatile prices.

Global economic growth remained steady at 3.1 per cent in 2018, as a fiscally induced acceleration in the United States of America offset slower growth in some other large economies. Economic activity at the global level is expected to expand at a solid pace of 3 per cent in 2019, but there are increasing signs that growth may have peaked. The growth in global industrial production and merchandise trade volumes has been tapering since the beginning of 2018, especially in trade-intensive capital and intermediate goods sectors.

Leading indicators point to some softening in economic momentum in many countries in 2019, amid escalating trade disputes, risks of financial stress and volatility, and an undercurrent of geopolitical tensions. At the same time, several developed economies are facing capacity constraints, which may weigh on growth in the short term.

Over the course of 2018, there was a significant rise in trade tensions among the world's largest economies, with a steep rise in the number of disputes raised under the dispute settlement mechanism of the World Trade Organization. A prolonged episode of heightened tensions and spiral of additional tariffs among the world's largest economies poses considerable risk to the global trade outlook. The impact on the world economy could be significant: a slowdown in investment, higher consumer prices and a decline in business confidence. This would create severe disruptions to global value chains, particularly for exporters in East Asian economies that are deeply embedded into the supply chains of trade between China and the United States. Slower growth in China and/or the United States could also reduce demand for commodities, affecting commodity-exporters from Africa and Latin America. There is a risk that the trade disputes could aggravate financial fragilities, especially in some emerging economies. Rising import prices, coupled with tighter financial conditions and

high debt-servicing costs, could squeeze profits and cause debt distress in certain industries over the medium term.

INDIAN ECONOMY

India's economy is projected to grow at 7.1 per cent in fiscal year 2020 on the back of strong domestic consumption and investment according to a report by the United Nations "The World Economic Situation and Prospects (WESP) 2019".

Despite 2018 being filled with external vulnerabilities arising out of rising oil prices, trade wars between major global trading partners and US monetary tightening, India outshone as the world's fastest growing major economy. The Indian economy, which generates two-thirds of the regional output in South Asia, expanded by 7.2 per cent in 2018. Strong domestic consumption and investment will continue to support growth, which is projected at 7.0 per cent in 2019 and 7.1 per cent in 2020. Better demand conditions, settled GST implementation, capacity expansion from growing investments in infrastructure, continuing positive effects of reform policies and improved credit offtake especially in the services sector at 24 percent will sustain the robust GDP growth in the range of 7.5 percent in 2019

GLOBAL AGROCHEMICAL INDUSTRY

A preliminary analysis by Agribusiness intelligence, of country market and company performances in 2018, estimates that the global market for agrochemicals, used in both crop and non-crop situations, has increased by 4.1% to \$64,038 million at the ex-manufacturer level.

Global Agrochemical Market Value (\$m.)

Based on this analysis, the global crop protection market is estimated to have increased by 4.2% to a total value of \$56,500 million during calendar year 2018. The main factor which has led to this growth is the recovery in the Brazilian market, the largest in the world, after its significant decline in 2016 and 2017. The excessive crop protection inventories which resulted in the 2017 decline have been addressed and are no longer such an issue. Other positive drivers include the generally high level of crop protection prices, resulting partly from supply shortages. In particular the prices of products originating from China have been high as a result of the environmental pressures and consolidation in the Chinese industry. This has been exacerbated by the tariffs imposed by the US on some Chinese chemical imports; Albaugh, for example, has announced that it had to increase its prices partly as a result of these; so has FMC.



Sales (\$m)	Crop Protection	Non-Crop	Total Agrochemical
2013	54,075	6,512	60,587
2014	58,746	6,515	65,261
2015	56,160	6,882	63,042
2016	52,882	7,106	59,988
2017	54,219	7,311	61,530
2018P	56,500	7,538	64,038

Crop Protection Market Performance 2018

Year	Crop Protection Market (\$m)	Change from Previous Year (nominal %)
2013	54,075	+4.4
2014	58,746	+8.6
2015	56,160	-4.4
2016	52,882	-5.8
2017	54,219	2.5
2018P	56,500	+5.0

Regional Market Performance 2018 – Nominal US Dollar Growth

Region	2018P (\$m)	Nominal Growth 2018/2017 (%)
NAFTA	11,105	+3.2
Latin America	13,425	+6.0
Europe	12,770	+3.2
APAC	17,050	+4.6
MEA	2,150	+1.9
World	56,500	+4.2

DOMESTIC AGROCHEMICAL INDUSTRY

Normal monsoons and favorable policies have boosted the agricultural sector recently. In the longer term, sustained policy boosts (irrigation, market access for farmers and rural infrastructure) will drive up farmer incomes and push up penetration of agrochemicals.

Agriculture is the primary source of livelihood for about 58 percent of India's population. Gross Value Added by agriculture, forestry and fishing was estimated at ₹ 18.53 trillion (US\$ 271.00 billion) in FY18. During 2017-18 crop year, food grain production is estimated at record 284.83 million tons. In 2018-19, Government of India targeted food grain production of 285.2 million tons. As of September 2018, total area sown with kharif crops in India reached 105.78 million hectares.

Total agricultural exports from India grew at a CAGR of 16.45 per cent over FY10-18 to reach US\$ 38.21 billion

in FY18. Between Apr 2018-Feb 2019 agriculture exports were US\$ 34.31 billion. India is expected to achieve the ambitious goal of doubling farm income by 2022. The agriculture sector in India is expected to generate better momentum in the next few years due to increased investments in agricultural infrastructure such as irrigation facilities, warehousing and cold storage. Furthermore, the growing use of genetically modified crops will likely improve the yield for Indian farmers. India is expected to be self-sufficient in pulses in the coming few years due to concerted efforts of scientists to get early-maturing varieties of pulses and the increase in minimum support price.

The government of India targets to increase the average income of a farmer household at current prices to ₹ 2,19,724 (US\$ 3,420.21) by 2022-23 from ₹ 96,703 (US\$ 1,505.27) in 2015-16.



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COMPANY OVERVIEW

Bhagiradha Chemicals & Industries Ltd is an R&D driven Technical grade pesticide manufacturing Company and has grown consistently to become a niche player in the field of agro chemicals. Its technical grade insecticides, fungicides and herbicides command respect in the overseas market and contribute up to 50% of its sales revenue.

Bhagiradha is well placed in the domestic market, led by a robust domestic portfolio with focus on in-licensing and regular launch of new products. The year gone by has witnessed significant progress made by our company in broad basing its revenue mix by adding new clients, new geographies and new products. These initiatives are expected to translate into accelerated revenues in the years ahead. The diversification in revenue stream would help us to mitigate any negative climate headwinds.

Bhagiradha looks set for sustainable long term growth led by its sheer endurance that was displayed in the bygone years. We have stayed the course and believed in our business model. We have successfully managed both failures and risks in a fast changing world.

Bhagiradha wants to be a partner of choice by creating compelling value for customers through leveraging its R&D capabilities and cost leadership. We have constantly raised the bar by benchmarking ourselves against the global best. Through a combination of high technology, talent, and a culture rooted in deep science we have proved that as an organization, we have what it takes to make world-class agrochemicals.

SWOT ANALYSIS

Strengths

Dominant market position in manufacturing of fungicides and herbicide technical.

Strong R&D capabilities and niche chemistry skills

Longstanding relationships with the global leaders in agro chemical industry.

Long standing industry experience of promoters and hands on approach of the management in R&D segment.

Weaknesses

Dependence on China for raw material linkages. China still continues to be the main source for many of the basic raw materials used in chemical manufacturing. Any disruption in the supplies is expected to have significant impact on the production and margins for the domestic agro Chemical players.

Opportunities

Blue-sky policy of China -Many chemical manufacturing facilities in China were shut down owing to safety issues, lack of effluent treatment facilities and relocation to industrial parks under pressure from Government. Moreover, additional cost incurred for proper effluent disposal also resulted in increase in manufacturing cost for Chinese companies. This has resulted in mismatch in supply and demand for pesticides, presenting an excellent opportunity for Indian Chemical Manufacturers.

Threats

Susceptibility to delays in Regulatory approvals.

BUSINESS STRATEGY

Short-Term/Medium-Term

- Make the most from its present leadership position of its bestseller fungicide, Azoxystrobin by scouting for new clientele in the domestic and overseas market.
- Commercialize production of Fipronil on a large scale and capture sizable market share in domestic as well as overseas market.

Long- Term

- Continue to work on developing commercially viable technologies for the products coming off patent post 2020 and emerge as a leading agrochemical Company with decent market share in the domestic segment and strong presence in overseas market.
- Strong emphasis on registrations of new products in existing markets and also of existing products in new markets to ensure strong, diversified revenue streams.

STATUS OF INSURANCE CLAIM

During the course of operations, a fire accident occurred in one of the production blocks on 20-05-2017. Part of the civil structures, Plant and Electrical Equipment worth ₹ 9.71 crores got damaged.

The Company has lodged a claim under the reinstatement policy for ₹ 12.41 crores towards the damages and the insurance company has disbursed ₹ 5.18 crores on ad hoc basis.

The Company has accounted loss as per Ind AS 16, ("Property, Plant and Equipment") Ind AS 36 ("Impairment of Assets"), net of ad hoc amount released by insurance company. The Company has also lodged a claim under consequential loss policy and both the claims are pending with the insurance company for final settlement.

RESEARCH & DEVELOPMENT

The Company's DSIR recognized R&D Centre located within the factory premises in Ongole is the key strength of Bhagiradha. Its well qualified and skilled professionals are specialized across research and process development of advanced intermediates and have successfully backward integrated the key raw material intermediates in the manufacture of Azoxystrobin fungicide. The process technology for the high quality products of Bhagiradha are entirely developed In-House over the years and its research team is constantly striving to establish a sound scientific base to meet the increasing demands on the quality of the products.

The company has also generated authentic chemical and toxicological data for its key products to facilitate registration of these products in the importing countries. The team is working hard on developing process technology for some high end off patent insecticides and fungicides.

Quality and Compliance

During the year, the manufacturing facility has undergone successful safety and Quality audits by our MNC customers and our facility complies with all the regulatory requirements. We aim at maintaining world class quality standards to unfailingly deliver and exceed the customer expectations.

The process technology for the high quality products of Bhagiradha are entirely developed In-House over the years and its research team is constantly striving to establish a sound scientific base to meet the increasing demands on the quality of the products.



FINANCIAL HIGHLIGHTS

Raw Material Consumed

The consumption of raw materials increased by 85.80% in the year 2018-19 as against reduction of consumption by 10.98% during the year 2017-18. The full scale operations in the accident affected production block resulted in increase of sales turnover by 109.75 % and consequently the consumption too increased equitably.

Employee Benefit Expenses

The employee related expenses increased to ₹ 15.84 Cr. from ₹ 11.59 Cr. The increase was mainly on account of fresh recruitment during the year on Company's rolls to meet the future growth plans and also on account of increased number of contract labor driven by increasing capacity utilization.

Other Expenses

The expenses under this head increased to ₹ 51.19 Cr. from ₹ 32.29 Crs. The increase is in line with the increased sales turnover in the year as compared to the previous year. The year before the expenses under this head were ₹ 39.71 Cr.

Profit after Tax

The profit after tax improved to ₹ 18.29 Cr. as against the loss of ₹ 1.30 Cr. The turnaround was the result of increase of total revenue in the year to ₹ 384.58 Cr. from ₹ 184.08 Cr in the previous year, facilitated by revival of full scale operations in production block III and also on account of better price realization in some segments.

Balance Sheet

(₹ in Crores)

Particulars	As on 31.03.2019	As on 31.03.2018
Liabilities		
Share capital	8.33	7.82
Reserves and surplus	119.77	94.01
Non- Current liabilities	8.40	14.50
Current Liabilities	137.12	126.73
Total	273.62	243.06
Assets		
Fixed Assets	109.73	77.09
Non- Current Assets	6.58	11.21
Current assets	157.31	154.76
Total	273.62	243.06

Fixed Assets

The gross carrying value of fixed assets increased to ₹ 152.30 Crs in the year, mainly due to capitalization of plant & equipment relating to backward integration works and reinstatement in block III to the tune of ₹ 29.80 Crs, Civil works which include construction of a new store house at a cost of ₹ 1.75 Cr. and cost of acquisition of land in acres 23.14 keeping in view the future requirement at a cost of ₹ 1.95 Cr.

Ratios

Key ratios	31.03.2019	31.03.2018
Inventory turnover	14.98	51.77
Interest coverage ratio	4.67	1.36
Current Ratio	1.15	1.22
Debt Equity ratio	0.37	0.60
Gross profit ratio	12.13	8.94
Net Profit margin	7.57	-3.07
EPS	22.53	-2.09
EPS (Cash)	41.82	-4.55
Return on capital employed	0.24	-0.01
Book value	157.80	163.79

Ratios

The total revenue of the Company in fiscal 2019, having improved by about 109% to ₹ 384.58 Cr. from ₹ 184.08 Cr. of the previous year as also the bottom line to ₹ 18.29 Cr. from loss of ₹ 1.30 Cr, most of the key ratios have positively improved over the previous year.

Inventory Turnover: The ratio improved to 14.98 from the previous year's ratio of 51.77 by 71.06 %. Momentous improvement in the sales turnover backed by significant repeat orders from the existing customers and sales to new overseas customers during the year resulted in increased sales by 109% and thereby decent improvement in the inventory turnover ratio.

Interest Coverage: Buoyed by strong performance in exports as well as in domestic market, the profit after tax jumped to ₹ 18.29 Cr. during the year as against the loss of ₹ 1.30 Cr. of the previous year. The reduction of rate of interest by banks, owing to improved credit rating and reduced term loan liability on account of repayment have also helped improve the interest coverage ratio to 4.67 as against that of 1.36 in the previous year, thus showing improvement of coverage by 2.43 times.

Debt Equity: Equity infusion of ₹ 7.00 Cr. by promoters by way of conversion of 5, 16,000 share warrants into as many shares having face value of ₹.10/- each with a premium of ₹ 171/, the profits ploughed back to reserves to the tune of ₹ 18.29 Cr and long term debt repaid to the tune of ₹ 6.90 Cr, have all contributed for the improvement of Debt equity ratio during the year to 0.37 from the previous year's 0.60. The ratio improved by 62.16% during the year.

Operating Profit margin: The operating profit margin improved to 9.65% during the year as against 5.15% of the previous year. The surge in the sales revenue and consequent growth in the bottom line contributed for the improved profit margins by about 87%.

Net Profit margin: The net profit margin for the year ended 31.03.2019 stood at 4.75% as compared to -0.53% of the previous year. The growth in revenue by over 109% has improved the bottom line to ₹ 18.29 Cr. against loss of ₹ 1.30 Cr.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The company has proper and adequate systems of internal controls which ensure that all the assets are safeguarded and that all transactions are authorized recorded and reported correctly. The company maintains adequate and effective control system and suitable monitoring procedures with regard to the purchase of raw materials, stores, plant & machinery, equipment and other assets as well as sale of goods. The finance and commercial functions have been structured to provide adequate support and controls for the business of the company.

INDUSTRIAL RELATIONS AND HUMAN RESOURCE DEVELOPMENT

The company has cordial and harmonious industrial relations. Opportunities for individual growth, creativity and dedicated participation in the organizational development are being provided.

Cautionary Statement

Statements in this report on Management Discussion and Analysis describing the company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable security laws or regulations. These statements are based on certain assumptions and expectation of future events. Actual results could however differ from those expressed or implied. Many important factors including global and domestic demand supply conditions, prices, raw materials costs and availability, change in government regulations, tax laws and other statutes, force majeure may affect the actual result which could be different from what the directors envisage in terms of future performance and outlook.