



NACL Industries Limited



**UNLOCKING POTENTIAL
TRANSFORMING THE FUTURE**

ANNUAL REPORT 2019-20

TABLE OF CONTENTS

01	Report Theme	21	Notice
02	Message from The Chairperson	37	Directors' Report
04	Review by The MD & CEO	61	Management Discussion & Analysis Report
06	Our Value Chain	69	Report on Corporate Governance
08	NACL at a Glance	94	Certification by MD and CFO
10	How We Create Value	95	Certificate on Corporate Governance
12	Financial Highlights	96	Independent Auditors' Report on Standalone Financial Statements
13	Our Strategic Environment	104	Standalone Balance Sheet
14	Key Strengths & Strategies	105	Standalone Profit and Loss Account
15	Expanding Manufacturing Capabilities	106	Standalone Cash Flow Statement
16	Farmer & Market Outreach	110	Notes on Standalone Accounts
17	Strengthening the Product Pipeline	151	Independent Auditors' Report on Consolidated Financial Statements
18	Board of Directors	157	Consolidated Balance Sheet
20	Farmer Speak	158	Consolidated Profit and Loss Account
		159	Consolidated Cash Flow Statement
		163	Notes on Consolidated Financial Statements

Disclaimer

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labour negotiations and fiscal regimes.



UNLOCKING POTENTIAL TRANSFORMING THE FUTURE

Crop Protection is a vital link in the agriculture value chain for ensuring farm yield and farmer well-being.

NACL believes that a key factor in achieving food security for feeding the growing population is to guard the painstakingly produced crop from the effects of insects, fungi and weeds. For over 25 years, the company has been guided by the objective of developing, manufacturing and distributing quality crop protection solutions through R&D and collaboration, playing a modest yet meaningful role in the practice and progress of agriculture, with its products and services reaching the length and breadth of India and its exports to over 30 countries.

Annual Report of FY 19-20 is an affirmation of the company's commitment to the cause of farm productivity and farmer progress, an account of how the last financial year has been an inflection point in the history of the company in more than one sense, and also an insight into the Company unleashing its inherent potential through strategic and operational initiatives to consolidate its position and grow significantly by building a vibrant, competitive and sustainable enterprise.

MESSAGE FROM THE CHAIRPERSON



It is a matter of pride for all of us at NACL that the brands built over two decades continue to be trusted in domestic retail, institutional and international markets with exports to over 30 countries.



Dear Shareholders,

I trust you are safe and well in the times of the current global pandemic. It is with a lot of satisfaction that I address this message to you, as we have closed 2019-20 on a good note reporting healthy sales and profit and embarking on a new phase of transformation and growth. We have continued with our efforts diligently to empower farmers and contributing towards achieving the Government's goal of doubling farmers' income, by investing resources in developing, manufacturing and supplying quality products and solutions while educating farmers on improved crop protection, best field practices and safety. Crop protection products, among others, have been categorised as goods essential to the nation during the pandemic and the Company responded in operating its plants as much as possible surmounting challenges and following required safety guidelines. As an assistance to local communities, the Company extended support on various matters to help deal with the crisis.

Our comprehensive product portfolio covers all the key agrochemical categories, namely insecticides, fungicides, herbicides and PGRs. The Company makes considerable effort to update farmers on the latest crop protection solutions and practices. On an on-going basis, our field development associates provide product application demos for effective and safe use, in line with our objective of helping improve

farm yield, income and livelihood through quality products and services.

There was a change of leadership in the Company last year with Mr. M. Pavan Kumar being appointed as MD & CEO with effect from 1st June 2019. The Board of Directors are confident that NACL is well placed to embark on a new phase of growth and strengthen its market position. I express my gratitude to Mr. V. Vijay Shankar who stepped down as MD and from the Board last year after serving the Company for eight years and steering it successfully through difficult times.

It is a matter of pride for all of us at NACL that the brands built over two decades continue to be trusted in domestic retail, institutional and international markets with exports to over 30 countries. The Company continues to invest in improving its product experience and differentiation. Our accent on environmental health and safety is high, with all of our facilities, technical manufacturing plant, formulation unit and R&D centre being accredited and recognised. We are steadily building on our long-standing and trusting partnerships with MNCs for the development and supply of products to global locations and local markets as well. Your Company sees enormous opportunity for growth and development of the industry in the time to come and is making sizable investments in manufacturing, R&D and marketing.



Your Company sees enormous opportunity for growth and development of the industry in the time to come and is making sizable investments in manufacturing, R&D and marketing.

Thanks to technological advancements, policy support, productivity and quality improvements that the Indian farmer today can potentially feed the entire population and produce surplus for exports as well. It is a matter of concern however that the country is estimated to be losing 20-30% of its agri-produce due to pest infestations and diseases. Inadequate crop protection measures can sometimes lead to loss of the entire crop. NACL has pride in being associated with the industry that provides an essential service to the farmer and thereby to the food value chain, economic development and social well-being.

In May 2020, a draft notice from the Govt. indicating a ban on 27 pesticides was unsettling to the industry. There are differing views on the proposed ban and debates are still on with the industry pleading for a widely considered judgment on the matter. In the event of such a ban being implemented, the impact on NACL would not be high given the breadth of its portfolio and a number of new products being in the pipeline.

The Company's interest in community service has always been high and its Corporate Social Responsibility work, especially at plant locations, include provision of purified drinking water, support for education and occupational training, offering medical assistance and others.

I would like to express my gratitude to all our stakeholders and thank customers, investors, lenders, channel partners, vendors, industry and business associates, Govt. agencies and others who trusted and supported the Company in its quest to serve its customers and the farmer community, pursuing a competitive and sustainable enterprise model. I appreciate the commitment and hard work of our employees in building a stronger Company with a promising future.

With best wishes.

K. Lakshmi Raju
Chairperson

REVIEW BY THE MANAGING DIRECTOR & CEO



NACL's performance in FY 2019-20 has been gratifying, with sales crossing the ₹ 1000 crore milestone with business growth of 17% over the previous year. It has been a year of all-round improvement including sales, asset management, product development and cost reduction.



Dear Member of the Shareholder family,

I trust you and your loved ones are safe and in good health. As we know, the current Covid crisis disrupted normal life, causing enormous suffering and loss across the world for the last many months. I sincerely hope that normalcy would be restored soon, though we may be seeing establishment of many new norms.

It gives me deep satisfaction to share that NACL's performance in FY 2019-20 has been gratifying, with sales crossing the ₹ 1000 crore milestone with business growth of 17% over previous year. It has been a year of all round improvement including sales, asset management, product development, cost reduction and others, while preparing the organisation for a bigger leap in the next years. It is reassuring that the company reported profit before tax of ₹ 23 crore against loss of ₹ 15 crore in FY 2018-19.

The Company's focus on quality, product/process improvement and customer service with due attention to the farming community, channel partners, corporate and multinational customers, helped immensely in not only improving our performance but also creating the wherewithal for scaling greater heights. Even in Covid times, with Govt. treating the industry as essential, the Company has been on a mission in restoring operations after few days of disruption and has been manufacturing and supplying products with the required industrial and personal safety, with a renewed sense of responsibility.

We intend to build further on the legacy of about three decades as an integrated agrochemical enterprise and be reckoned among the leaders in our chosen areas of engagement.

Opportunity landscape

The global crop protection market is expected to reach about \$ 75 billion by 2027, expanding at a CAGR of over 3%. The Indian crop protection market is one of the largest in the world, only behind Brazil, the United States, China and Japan, with an estimated size of about \$6 billion, split almost equally between domestic and export business. Indian agrochemical business is expected to grow to about \$ 8 billion by 2025 and India's position may get even better if the industry rises to the occasion by investing in production capacities, development capabilities and sustainable practices. India has a large, mature and diversified chemical industry and the enterprise to be able to accelerate its way to the global industry high-table.

With per acre use of crop protection products still quite low, India has considerable potential to grow by raising the bar on education of safe and effective use, quality and range of product solutions, environmental stewardship and others. With policy support, infrastructure and market access, win-win intermediation and other favourable conditions backing agriculture in becoming more remunerative and competitive, input quality and quantity is only going to go up in agricultural practices.



The Company is currently working on expanding its manufacturing footprint substantially by setting up greenfield sites in Gujarat and Andhra Pradesh.

An integrated and diversified business architecture should stand the Company in good stead in actualising growth opportunities. The Company is currently working on expanding its manufacturing footprint substantially by setting up greenfield sites in Gujarat and Andhra Pradesh, enhancing its R&D capability and strengthening its product portfolio, while working concerted in forging long-term relationships with customers.

Footprint, tailwinds & response

The Company is built as an integrated business platform with strategic investments in manufacturing, R&D and marketing of active ingredients, intermediates and branded formulations. The robust business portfolio, spanning sales of domestic branded formulations and B2B businesses on the one hand and on the other, exports to overseas customers, many of them being large MNCs and institutions with long-standing and trusted relationships, has considerable depth and vibrancy.

The Company's retail brands, built over the years with quality and consistency, with presence in all major categories including insecticides, herbicides, fungicides and plant growth regulators, have a strong franchise among the trade and farming community. A network of over 12500 retailers spread across the country, provide an effective last mile connect to deliver over 50 branded formulations to the farmers. The Company is in active discussions to grow its B2B and overseas business as well, with a number of initiatives underway in custom development, co-marketing and joint-ventures.

The current pandemic situation and the limitations it has been imposing on the conduct of business created a compelling context for heightened use of digital

means for performing various functions. During the recent lock-down phase in the country, the Company has been creative and agile in accessing social and digital platforms as effective means for business continuity, remaining connected with the trade and farmer community for information, education and transaction.

Accent on good governance, culture of professional management, attention to compliance, regard for social equity and recognition of initiative have all been pillars of strength for the organisation in wading through difficult times, renewing itself and readying for the times ahead. A nurturing and collaborative working environment, marked by professional dignity and empathy pervading all levels and functions, has been key in the employees' urge to learn, improve and contribute. Integrity, safety and concern for community have been central to the Company's conduct.

There are challenges too, such as the vagaries of weather that often beset agriculture and the rural economy, industry dependency on limited sources for raw materials and the perception shortfall about the industry in various constituencies despite the painstaking pursuit of providing an essential service with implications for food security, GDP growth and social good. The Company however remains confident and resolute in addressing these in an enlightened and constructive manner for every stakeholder to win.

I thank our customers for their trust, employees for their effort, Board for their guidance and all stakeholders for their faith and support. The Company is optimistic of a bright future, appreciates your interest and looks forward to a long and rewarding association.

Every good wish.
Sincerely,

M Pavan Kumar
Managing Director & CEO

OUR VALUE CHAIN

The key differentiator of the Company is its strong presence in the entire value chain of Crop Protection including R&D, Active Ingredients, Formulations, Retail Distribution and Farmer Outreach programmes.

To further strengthen the existing value chain, the Company is currently working on setting up greenfield manufacturing sites in Gujarat and Andhra Pradesh, expanding its product portfolio and R&D capability while working concertededly in forging long-term relationships with retailers and farmers.

A state-of-the-art R&D center near Hyderabad, where cost effective processes are developed for the manufacture of Active Ingredients and Intermediates for herbicides, insecticides and fungicides and new formulations of pesticides. The center has a synthetic lab, formulation lab and analytical lab.



1



2

A technical manufacturing plant at Srikakulam, Andhra Pradesh, 100 km from the Visakhapatnam port. This facility has a production capacity of 10000 metric tons per annum and produces technical for sale as well as for captive consumption.

10000 Metric Tons (Capacity)

Formulation unit located at Ethakota, Andhra Pradesh, a large formulating and packaging facility for handling large capacities of liquids, powders and granules with a Capacity of 53000 MT/KL per annum.



3

53000 MT/KL per annum (Capacity)



4

47 stock points and 12500 retail outlets across India under the Company's direct to retail approach.

12500 Retail outlets

With the involvement of agriculture scientists, we address our farmers and teach them crop protection techniques. Our field development associates further give product demos to show usage methods, benefits and techniques of crop protection to the farmers. We sincerely aim to continuously improve farm yield, income and livelihood through outreach programmes.



5

50 Lakhs farmers

NACL AT A GLANCE

NACL is an established agrochemical Company in India, founded in 1993. The Company started as an Active Ingredient manufacturer and has built a sizable business in Domestic Retail, B2B and Exports, with many of the customers being large MNCs with long-standing relationships. The Company has also emerged as a strong player in the formulations business with over 50 products covering all major crops. In formulations, the Company manufactures products in all major categories such as Insecticides, Herbicides, Fungicides and Plant Growth Regulators.

