

Sigachi Industries Limited

January 04, 2023

Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|---|--|---------------|
| Long-term bank facilities | 13.93 | CARE A-; Stable (Single A Minus; Outlook: Stable) | Reaffirmed |
| Long term / Short-term bank facilities | 22.10 | CARE A-; Stable / CARE A2 (Single A Minus ; Outlook: Stable/ A Two) | Reaffirmed |
| Total bank facilities | 36.03 (₹ Thirty-six crore and three lakh only) | | |

Details of instruments/facilities in Annexure-1.

Detailed rationale & key rating drivers

The reaffirmation in the rating assigned to the bank facilities of Sigachi Industries Limited (Sigachi) continues to derive strength from the proven track record, vast experience of the promoters with qualified management team, integrated and accredited manufacturing facilities, strong network base, favourable location of units, satisfactory financial risk profile, adequate liquidity and stable industry outlook. The ratings strengths are however tempered by modest scale of operations, high dependence on import for raw material and margins are susceptible to fluctuation in raw material prices, project implementation risk and elongated operating cycle.

Rating sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Steady growth in TOI with PBILDT margin of above 20% along with maintaining strong ROCE ratio.
- ✓ Ability of the company to complete the project without any time and cost overrun and generate revenue as envisaged.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✗ Notable decline in TOI by more than 30% y-o-y and PBILDT margin falling below 15%
- ✗ Elongation of operating cycle beyond 140 days.

Detailed description of the key rating drivers

Key rating strengths

Proven track record, vast experience of promoters and qualified management team:

Sigachi has been promoted by Rabindra Prasad Sinha, S. Chidambarnathan and Amit Raj Sinha in 1989. Rabindra Prasad Sinha and S. Chidambarnathan, who are the whole-time directors have been associated with the company since inception. They are the founding members and are actively involved in the strategic decision making for Sigachi, pertaining to corporate and administrative affairs, financial operations, expansion activities, business development and management of overall business. Rabindra Prasad Sinha has more than three decades of experience in the chemical industry. He has played an instrumental role in setting up of the wholly-owned subsidiary, Sigachi US Inc. and in expansion of export operations. S. Chidambarnathan has an experience of more than five decades in the field of variety of chemicals and derivatives of cellulose. He has played an instrumental role in expanding the domestic operation of the company and in setting up of the manufacturing units in Gujarat. The Managing Director and Chief Executive Officer, Amit Raj Sinha has been instrumental in strengthening the research and development division of Sigachi. He along with his team from the R&D division have published various research papers in renowned journals such as International Journal of Pharmaceutical Sciences and Research, European Journal of Biomedical and Pharmaceutical sciences, World Journal of Pharmaceutical Research, International Journal of Recent Scientific Research, etc.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The top management is supported by an experienced and professional management team with considerable experience in the excipient industry. The team consists of well qualified and experienced personnel in the diversified industries to which Sigachi caters and has been responsible for the growth of the operations.

Favorable location of the facilities:

With a view to strategically expand operations and ensure market presence in domestic and international markets, Sigachi has set up three multi-locational manufacturing units in Jhagadia, Dahej and Hyderabad which helps the company provide timely, efficient and customized delivery of products in terms with the specific demographic needs. With three units located across Gujarat and Telangana, Sigachi has an aggregate installed capacity of 13188 MTPA as on March 31, 2022. The facilities house equipment and systems and comply with the norms of USFDA (United States Food and Drug Association) and WHO-GMP (World Health Organization Good Manufacturing Practice). Apart, the company has following certifications HACCP (Hazard Analysis Critical Control Point), ISO 9001:2015 and EDQM European Directorate for the Quality of Medicines & HealthCare.

The production facility at Dahej- Special Economic Zone, with next door 'Dahej Port', gives added advantages in terms of tax benefits, reduced transportation costs and faster turn-around of raw material to finished goods. Dahej unit contributed 41% of total revenue during FY22.

Offering wide range of products:

The company currently offers 59 distinct grades of MCC through its two state-of-the-art manufacturing facilities in Hyderabad and Gujarat. Microcrystalline cellulose (MCC) is commonly utilised in the pharmaceutical sector as an excipient for finished doses. MCC's non-reactive, free-flowing, and adaptable character makes it useful in the pharmaceutical, food, nutraceutical, and cosmetic industries. MCC in various grades ranging from 15 to 250 microns for the domestic and export markets under the HiCel and AceCel brands. Exports account for 75.43 % of revenue, with domestic businesses accounting for the remaining 24.57%.

Integrated and accredited manufacturing facility:

The manufacturing units are accredited with quality control certifications from recognized international and domestic bodies. Our Quality Division and in-house testing laboratories are equipped with equipment such as tablet hardness tester, tablet friability tester, UV spectrophotometer, etc. for ensuring the quality and compliance in accordance with international standards at all times.

Sigachi received a certificate of registration from United Registrar of Systems for certifying that the quality management systems of all manufacturing units are in compliance with ISO 9001:2015. Apart, the company also received a certificate of registration from TUV NORD CERT GmH applying management system as per Food Safety System Certification 2000 (Version 4.1) for manufacturing unit situated in Hyderabad.

Strong network base:

Sigachi created a long-standing market presence in India and across the globe with their premium quality products. The company's wholly-owned foreign subsidiary, Sigachi U.S. Inc., is based in Virginia, USA, and assists the company in meeting the demands of their international customers. The company serves a wide range of customers, including end-users, merchants, distributors, and exporters. Sigachi supplies products to over 50 countries including Australia, the United States, South America, the United Kingdom, Poland, Italy, Denmark, China, Colombia and Bangladesh to name a few.

Comfortable leverage and coverage indicators:

The capital structure of the company continues to remain satisfactory marked by overall gearing ratio at 0.15x as on March 31, 2022 (PY:0.23x) on account of increase in networth from ₹94.56 crore as on March 31, 2021 to ₹226.46 crore as on March 31, 2022 due to funds raised through IPO. The coverage ratio represented by PBILDT interest coverage improved from 35x in FY21

to 46x in FY22 mainly on account of stronger PBILDT levels as against minimal amount of interest obligation. TDGCA also remained satisfactory at 0.83x.

Favorable industry outlook:

The microcrystalline cellulose (MCC) market size in India is projected to reach USD 93 million by CY25, registering a CAGR of 13.84% from CY21 to CY25.¹⁰ The growth of the MCC market is primarily triggered by the increasing demand for processed food and growing production of pharmaceutical, cosmetics and personal care products. In line with the global trend, pharmaceutical will be major growth segment followed by food & beverages and cosmetic for MCC market in India.

Microcrystalline Cellulose (MCC) is an important ingredient in the food, pharmaceutical, and cosmetics sectors, as well as to boost MCC's growth in the pharmaceutical segment, rendering the industry the fastest-growing end-use of MCC.

Increasing research and development effort, global investments, and various formulations have positioned the pharmaceutical industry as the top end user of MCC, with newer formulations driving market growth.

Key rating weakness**Moderate albeit increasing scale of operations:**

The total operating income of the company although improved by 32% in FY22 continues to remain moderate at ₹251.96 crore. The capacity utilisation was more than 90% in all the three units and therefore the revenue is likely to remain range bound until installed capacities are enhanced. The company derives 75% of the revenue from pharma segment followed by nutraceuticals, food and beverage 10% each and remaining from cosmetics. Although the scale remained modest, the profitability margins of the company continues to remain healthy with PBILDT and PAT margin of 21% and 15% respectively in FY22.

Elongated operating cycle:

The operating cycle of the company remained moderately elongated at 100 days (PY:102 days) during FY22. For smooth flow of operations, the company maintains an average inventory level of around 2-3 months to meet the customer requirement in timely manner. Raw material being largely imported, the company needs to maintain sufficient stock at all times. The average collection period increased from 68 days in FY21 to 82 days in FY22 on account of significant increase in sales in the last quarter.

Project implementation risk:

The company has undertaken project for expansion(brownfield) of existing units (Dahej and Jhagadia) and setting up of new unit at Kurnool with total project cost of ₹89.70 crore which would be funded through IPO Proceeds. As on September 30, 2022, the company has incurred total cost of ₹33.29 crore towards this capex. From the above said project, the installed capacity likely to increase from 14000MTPA to 21000MTPA for the existing products and planning to manufacture high-value products. The company expecting incremental revenue of around 10-15% from the said expansion. However, completion of the project without any time and cost overrun will remain critical from credit perspective.

Dependent on import market for procurement of raw material:

Although Sigachi has established relationships with its key suppliers which enables the company to procure its raw materials at competitive prices. Conversely, the company faces concentration of suppliers and procures nearly 100% of its raw material from overseas owing to the unavailability of standard refined wood pulp and eucalyptus in the domestic market. The company imports wood pulp from Hong Kong, Switzerland, USA, Germany, Canada etc. The company purchases 70% of raw material through annual contract pricing along with fixed delivery schedules and remaining 30% would be purchased based on pricing opportunities. Besides this, the company also avails discounts on bulk purchases and they have long standing relationship with its suppliers. Furthermore, any increase in raw material price would be passed on to its customers. The profitability margins are also exposed to foreign exchange fluctuation risks in the absence of any formal hedging policy. The company, however, enjoys a natural hedge as the company imports 100% of raw material and has more than 70% of revenue from export market.

Liquidity: Adequate

The liquidity position of the company is adequate marked by healthy gross cash accruals of ₹41.99 crore during FY22 as against term debt obligation of around ₹0.57 crore. This apart, the company has free cash and bank balance of ₹68.63 crore as on March 31, 2022. Furthermore, the company sparingly utilizes its working capital limits and average utilization remained low at 34% during the last 12 months ended November 30, 2022. The capex requirement will be funded through internal accruals with very less reliance on bank borrowings. The current ratio of the company remained comfortable at 4.21x as on March 31, 2022.

Analytical approach: Standalone**Applicable criteria**
[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing](#)
About the company

Telangana based, Sigachi Industries Limited was originally incorporated as 'Sigachi Chloro-chemicals Private Limited' in the year 1989, with an objective to manufacture chlorinated paraffin. In 1990's, the company decided to diversify its business activities to manufacture microcrystalline cellulose (MCC). Subsequently, in March 2012, the name of the company was changed to 'Sigachi Industries Private Limited'. In the years 2009 and 2011, the promoters had incorporated 'Sigachi Plasticisers Private Limited' and 'Sigachi Cellulos Private Limited' respectively, to meet the rising industry demand for MCC. However, the aforementioned companies amalgamated with Sigachi in 2014. Furthermore, in December 2019, the company was converted from a private limited company to a public limited company (equity is listed on BSE) and consequently the name of the company was changed to 'Sigachi Industries Limited'.

The company is engaged in manufacturing of MCC, which is widely used in pharmaceutical, food, beverage, cosmetic and paint industry. The most common uses of MCC are in vitamin supplements and tablets. It also acts as a bulking agent in food production. MCC is produced from refined wood pulp which is imported by the company.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | H1FY23(UA) |
|----------------------------|--------------------|--------------------|------------|
| Total operating income | 191.20 | 251.97 | 152.75 |
| PBILDT | 40.59 | 52.96 | 32.21 |
| PAT | 29.06 | 38.03 | 22.81 |
| Overall gearing (times) | 0.23 | 0.15 | 0.16 |
| Interest coverage (times) | 35.02 | 45.85 | 19.29 |

*A-Audited; NA-Not available; UA-Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4
Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|------------------------------|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Cash Credit | | - | - | - | 12.00 | CARE A-; Stable |
| Fund-based - LT-Term Loan | | - | - | May 2028 | 0.10 | CARE A-; Stable |
| Fund-based - LT-Term Loan | | - | - | May 2025 | 1.83 | CARE A-; Stable |
| Fund-based - LT/ST-EPC/PSC | | - | - | - | 13.35 | CARE A-; Stable / CARE A2 |
| Non-fund-based - LT/ST-BG/LC | | - | - | - | 8.75 | CARE A-; Stable / CARE A2 |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|---------------------------|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Cash Credit | LT | 12.00 | CARE A-; Stable | - | 1)CARE A-; Stable (23-Feb-22) | 1)CARE BBB; Positive (12-Mar-21) | 1)CARE BBB; Stable (17-Dec-19) |
| 2 | Fund-based - LT-Term Loan | LT | 0.10 | CARE A-; Stable | - | 1)CARE A-; Stable (23-Feb-22) | 1)CARE BBB; Positive (12-Mar-21) | 1)CARE BBB; Stable (17-Dec-19) |
| 3 | Non-fund-based - LT/ST-BG/LC | LT/ST* | 8.75 | CARE A-; Stable / CARE A2 | - | 1)CARE A-; Stable / CARE A2 (23-Feb-22) | 1)CARE A3+ (12-Mar-21) | 1)CARE A3+ (17-Dec-19) |
| 4 | Non-fund-based - LT-Bank Guarantee | LT | - | - | - | 1)Withdrawn (23-Feb-22) | 1)CARE BBB; Positive (12-Mar-21) | 1)CARE BBB; Stable (17-Dec-19) |
| 5 | Fund-based - LT/ST-EPC/PSC | LT/ST* | 13.35 | CARE A-; Stable / CARE A2 | - | 1)CARE A-; Stable / CARE A2 (23-Feb-22) | 1)CARE BBB; Positive (12-Mar-21) | 1)CARE BBB; Stable (17-Dec-19) |
| 6 | Fund-based - LT-FBN / FBP | LT | - | - | - | 1)Withdrawn (23-Feb-22) | 1)CARE BBB; Positive (12-Mar-21) | 1)CARE BBB; Stable (17-Dec-19) |
| 7 | Fund-based - LT-Term Loan | LT | 1.83 | CARE A-; Stable | - | 1)CARE A-; Stable (23-Feb-22) | 1)CARE BBB; Positive | 1)CARE BBB; Stable (17-Dec-19) |

| | | | | | | | | |
|--|--|--|--|--|--|--|-------------|--|
| | | | | | | | (12-Mar-21) | |
|--|--|--|--|--|--|--|-------------|--|

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:NA

Annexure-4: Complexity level of various instruments rated for this company

| Sr. No. | Name of Instrument | Complexity Level |
|---------|-------------------------------|------------------|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |
| 3 | Fund-based - LT/ ST-EPC/PSC | Simple |
| 4 | Non-fund-based - LT/ ST-BG/LC | Simple |

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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