

Madhu Silica Private Limited

February 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term/ Short Term Bank Facilities	55.00	CARE AA+; Stable/ CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Total	55.00 (Rupees Fifty Five crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Madhu Silica Private Limited (MSPL) continue to derive strength from the vast experience of its promoters in precipitated silica industry, its established track record of operations with leadership position in the domestic market, its association with reputed clientele in the domestic and international markets and management's conservative policy towards usage of debt. The ratings further continue to factor sustained growth in its scale of operations with strengthened capital base, healthy profitability, low leverage and strong debt coverage indicators along with its strong liquidity. The ratings also take cognizance of stable demand outlook for precipitated silica from its diverse end-use industries. CARE also notes that MSPL has not availed any moratorium on its debt as a Covid relief measure from its lenders, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which further underlines its strong liquidity profile.

The long-term rating, however, continues to be constrained due to its limited product mix leading to relatively moderate scale of operations; albeit diversified end uses of its product, susceptibility of its profitability to foreign currency exchange rate fluctuation and raw-material price volatility.

Rating Sensitivities

Positive Factors

- Significant growth in its scale of operations on a sustained basis while diversifying its product profile and clientele along with maintaining its healthy profitability, debt coverage and leverage indicators

Negative Factors

- Moderation in PBILDT margin below 15% on a sustained basis
- Deterioration in overall gearing beyond 0.50 times and Total Debt/GCA beyond 1.50 times on a sustained basis
- Any regulatory or management changes adversely affecting its operations
- Substantial reduction in liquidity available with the company

Detailed description of the key rating drivers

Key Rating Strengths

Continued growth in the scale of operations with healthy profitability

Increased off-take of precipitated silica from MSPL's existing customers along with addition of new customers on the back of recent increase in its installed capacity has led to y-o-y volume growth of around 7% during FY20. Consequently, the total operating income (TOI) of the company also registered a y-o-y growth of around 5% to Rs.1,018.61 crore during FY20. The operating profitability (PBILDT) margin of MSPL improved by 40 bps on y-o-y basis and stood at 20.15% during FY20. Negligible interest outgo has also resulted in healthy PAT margin of 10.91% during FY20 with healthy gross cash accruals of Rs.173.98 crore during the year. During 9MFY21, as per provisional results, the company reported TOI of Rs.754 crore and PBILDT of Rs.195 crore. Profitability margin improved to around 26% during 9MFY21 mainly on account of improved sales realization and economies of scale.

Reputed clientele across diverse end-use industries

Precipitated silica produced by MSPL has diversified application in the tyre (39% of total sales of FY20), oral health care (23%), footwear and rubber (12%), free flow in food (8%), paint and paper (6%), detergent (3%) and other industries. It also sells alumino silicates to the paint and paper industries. MSPL has very long association of more than 30 years with Unilever group. MSPL has reputed clientele which includes Unilever Plc., Hindustan Unilever Ltd, Colgate Palmolive, Continental Tyre, Ceat Tyre, MRF, Goodyear, Apollo Tyre, Asian Paints, GlaxoSmithKline (GSK), etc. – all leading players in their respective industries. MSPL has also added new customers in both domestic and international markets in the pharmaceutical and tyre industries over the last few years.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Further, its revenue stream is diversified with good mix of export and domestic sales wherein exports contributed 49% of the net sales during FY20. In addition to this, MSPL had traded goods sales of Rs.155.42 crore during FY20. MSPL exports its various grades of silica to locations across the world including Sweden, Israel, Thailand, USA, Tanzania, Portugal, Slovakia, Nepal, Turkey, Belgium, Singapore, Pakistan, China, etc. The diversification mitigates any adverse impact of slowdown in a particular end-use industry segment.

Strong leverage and debt coverage indicators

Over the years, healthy accretion of profits to its net-worth has resulted in augmentation of its net worth base to Rs.695.16 crore as on March 31, 2020 and strong leverage. Further, healthy cash flow from operations and absence of major debt funded capital expenditure has resulted in zero outstanding fund-based debt as on March 31, 2020 and December 31, 2020. Consequently, its debt coverage indicators also remained strong during FY20 and 9MFY21.

Established track record and leadership position in the domestic precipitated silica market

MSPL is the largest player in domestic precipitated silica industry with established track record of around five decades. MSPL had an installed capacity of 2,70,000 metric tonne per annum (MTPA) as on March 31, 2020 for manufacturing more than 50 different grades of precipitated silica. MSPL has a research and development unit at Bhavnagar (Gujarat) recognized by Department of Scientific and Industrial Research (DSIR), Govt. of India since 1997. MSPL is also registered with REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) which is mandatory for selling chemicals in European Union (EU) countries. Besides, MSPL has advantage of ease in availability of key raw materials i.e. Sodium Silicate Glass (manufactured from soda ash and silica) and sulphuric acid as its manufacturing facility is located at Bhavnagar, Gujarat. The overall affairs of the company are managed by Mr Ramesh Shah (Chairman) and his son Mr Darshak Shah (Managing Director) who have vast experience in the industry. Though the decision making in the company is a family centric process, the top management is competent and has vast experience in their respective areas of operation and is supported by a team of professionals to look after the various day-to-day aspects of the organization.

Stable demand outlook for precipitated silica industry

Outlook for precipitated silica business is stable despite Covid-19 pandemic on the back of steady demand prospects from its diverse user industries such as oral healthcare (mainly gel and whitening toothpaste), tyre, footwear, fertilizer, paint, cosmetics, pharmaceuticals, food, etc. Silica filler helps to reduce the tyre's rolling resistance leading to decrease in a motor vehicle's fuel consumption and thereby a reduction in consumption of petroleum and lower CO₂ emissions. Hence, demand for 'green tyre' also augurs well for the long-term prospects of MSPL. Technical competency, stringent quality standards and lengthy product approval process from client has also acted as an entry barrier in the industry and provides competitive edge to MSPL in the domestic precipitated silica industry.

Key Rating Weaknesses

Foreign currency fluctuation risk and raw material price volatility

MSPL is inherently exposed to foreign currency fluctuation risk to a certain extent as it earned approximately 49% of its total sales through exports during FY20, while its entire procurement of raw materials and spare parts is done from the domestic market. Generally, MSPL enters into forward contract covering almost 40-50% of its foreign currency exposure and balance exposure is taken care of by utilization of working capital limits in the form of packing credit in foreign currency (PCFC). Due to the above factors, despite significant volatility in foreign currency exchange rates, there was no major adverse impact of foreign currency fluctuation on profitability of MSPL in the recent past. Sodium silicate and sulphuric acid are major raw materials of MSPL. Prices of these raw materials have witnessed sharp volatility in the recent past. Hence, MSPL's ability to continuously pass on the increase in input cost to its customers shall be crucial.

Relatively moderate scale of operations compared to major global competitors

Although MSPL is the largest player in the domestic precipitated silica market with silica sales of ~Rs.1019 crore during FY20, its limited product-mix (despite diverse end-use applications) has resulted in relatively moderate scale of operations when compared to its global competitors such as Evonik and Solvay groups which operate on a very large scale across diverse geographies with multi-location manufacturing facilities and presence in multiple specialty chemical products. Evonik is the largest player of silica in the world while Solvay is the second largest player. The ability of MSPL to significantly increase its scale of operations in line with its global peers in the precipitated silica segment and ensure greater geographical and product diversification shall be the key rating sensitivity going forward.

Liquidity: Strong

MSPL's liquidity is marked by strong accruals against no term debt repayment obligations and presence of liquid investments to the tune of ~Rs.268 crore as on March 31, 2020 which further increased to ~Rs.337 crore as on December 31, 2020. With no outstanding fund based debt as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt. Utilization of fund based working capital limits has also remained negligible for last around four years. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Its current ratio stood healthy at 2.44 times as on March 31, 2020 along-with healthy cash flow from operations of Rs.146.10

crore during FY20. Also, MSPL has not availed any moratorium on its debt obligations from any of its lenders, the option for which was available to it as a Covid-relief measure under RBI's package which further underlines its strong liquidity.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning 'outlook' and to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Liquidity Analysis of Non-financial sector](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1971 at Bhavnagar, Gujarat, Madhu Silica Private Limited (MSPL) is promoted by Mr Ramesh Shah, Chairman who has more than four decades of experience in the precipitated silica business. As on March 31, 2020, the promoter group i.e. Mr Ramesh Shah, his family members and family formed HUF (Hindu Undivided Family) held 100% equity stake in MSPL. MSPL is presently the largest manufacturer of precipitated silica in India. The company is engaged in the manufacturing of precipitated silica of more than 50 different grades which finds application in various industries like oral healthcare (mainly gel and whitening toothpaste), tyre, footwear/rubber applications, fertilisers, paints, cosmetics, pharmaceuticals, food, etc. It also manufactures small quantities of alumino silicates which find application in paper and paint industry.

Brief Financials (Rs. crore)	*FY19 (A)	FY20 (A)
Total operating income	967.31	1,018.61
PBILDT	191.08	205.22
PAT	104.92	111.15
Overall gearing (times)	0.00	0.00
Interest coverage (times)	VL	VL

A: Audited; VL- Very Large; *FY19 results have been restated as per audited accounts of FY20

As per 9MFY21 (Prov.) results, MSPL reported TOI of Rs.754.00 crore with PBILDT of Rs.195.00 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure - 1: Details of Facilities / Instruments

Name of the Instrument/Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	35.00	CARE AA+; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	CARE AA+; Stable / CARE A1+

Annexure - 2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	35.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (28-Jan-20)	1)CARE AA+; Stable / CARE A1+ (25-Oct-18)	1)CARE AA+; Stable / CARE A1+ (01-Dec-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (28-Jan-20)	1)CARE AA+; Stable / CARE A1+ (25-Oct-18)	1)CARE AA+; Stable / CARE A1+ (01-Dec-17)

Annexure - 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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