# A.R. Stanchem Private Limited (Revised)

January 06, 2023

## Rating

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term / Short Term Bank Facilities | 55.00<br>(Enhanced from 31.00) | CARE A; Stable / CARE A1<br>(Single A; Outlook: Stable/ A One) | Reaffirmed |
| **Total Bank Facilities** | **55.00<br>(₹ Fifty-Five Crore Only)** | | |

Details of instruments/facilities in Annexure-1.

## Detailed rationale and key rating drivers

The ratings continue to draw comfort from healthy capital structure and liquidity position of the group in FY22 (refers to the period April 01 to March 31) coupled with procurement arrangement of the group from Farabi Petrochemicals Company continues to support healthy scale of operations. Given that LABSA is primarily used in making detergents, the demand for the same increased due to overall increase in hygiene consciousness post COVID19 pandemic. Further, the rating continues to derive strength from the experienced promoter and long-standing track record of operations of the group, strong presence in the Eastern India surfactant market, integrated nature of operations, association with reputed client base including leading consumer of surfactants albeit marked with client concentration, improvement in financial performance in FY22 & H1FY23 and efficient management of the working capital cycle. The ratings are, however, constrained by exposure to volatility in raw material prices and forex fluctuation risk and limited bargaining power against large suppliers and consumers.

## Rating sensitivities

**Positive factors – Factors that could lead to positive rating action/upgrade:**

- Total operating income above Rs.2000 crore (combined) per annum with improvement in PBILDT margins above 9% a on sustained basis.

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- Deterioration in overall gearing above 0.6x and/or Total debt/PBILDT above 2X on a sustained basis.
- Sharp decline in cash & liquid investments from current levels.

## Detailed description of the key rating drivers

**Key rating strengths**

**Experienced promoter and long-standing track record of operations of the group leading to strong presence in the Eastern India surfactant market:** The chemical arm of the Fogla Group had been set up by Mr. Sandeep Fogla, son of Mr. Shyam Sundarji Fogla and Chairman of the group. The group has grown under his stewardship and with the growing scale and strengthening of its relationship with leading producer of detergents, the group has become a leading supplier of surfactant LABSA in Eastern India.

**Integrated nature of operations:** LABSA is a synthetic surfactant manufactured with Sulphur Trioxide (for LABSA 96%)/ Sulphuric Acid (for LABSA 90%) and LAB as raw materials. Since inception the group purchased Sulphuric Acid, but to ensure steady supply of LABSA to its clients, one of them being a leading FMCG player, the group set up its Sulphuric acid manufacturing facility in 2009 in Kharagpur. The steam generated during the manufacture of Sulphuric acid is used to generate electricity and the whole of SSPL and SFPL is powered by a power plant with a capacity of 3 MW. This leads to a saving in power costs. During the manufacture of LABSA 90%, diluted Sulphuric acid is released as a by-product. As a forward integration endeavour, the group manufactures the fertilizer-SSP that uses the by-product (diluted Sulphuric acid) as one of its raw materials.

**Association with reputed client base including leading consumer of surfactants albeit marked with client concentration:** The group's major revenue comes from the sale of LABSA. LABSA is an anionic surfactant that finds its application in the detergent industry. The Fogla group caters to the requirement of some of the leading FMCG manufacturers such as the Unilever Group namely- HUL and Unilever Bangladesh and Unilever Nepal, deriving around 40%-50% of its direct and indirect sales. Although this mitigates off-take risks but exposes the group to customer concentration. The group has also started catering to P&G to supply LABSA, which helps in reducing customer concentration risk to a certain extent.

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

**Improvement in financial performance in FY22 and H1FY23:** The operating income of the group grew y-o-y by about 34% in FY22 majorly due to a sharp increase in LABSA realisations, while the volumes remained stable. The profitability margin in FY22 moderated by about 244 bps and stood at 6.49% (PY: 8.93%) largely driven by rising input prices and bonus pay-outs of close to Rs 10 crores. Further stable and steady profile of the fertilizer segment continued to support the overall operational profile. H1FY23 performance continues to see a steady performance with near to sustained volumes and even higher realizations. The higher realization remains attributed to higher prices of LAB following increase in crude oil prices along with higher prevailing prices of Sulphuric acid, though the same may see some moderation going forward, with the prices cooling off.

**Satisfactory capital structure and debt coverage indicators:** The capital structure of the group remained satisfactory and remained at similar levels as that of fiscal 2021. The overall gearing ratio stood at 0.23x as of Mar’22 vis-à-vis 0.24x as of Mar’21 on the back accretion of profit with slightly higher year end debt levels owing to higher LC backed acceptances. Debt protection metrics like TD/GCA, though moderated, were stable at 0.95x as of Mar’22 vis-à-vis 0.71x as of Mar’21. Interest coverage ratio also remained comfortable and stood at 17.30 times in FY22 vis-à-vis 16.71 times in FY21. The capital structure is expected to remain comfortable in absence of any debt funded capital expenditure in the near to midterm.

**Efficient management of the working capital cycle:** As a substantial portion of the key raw material, LAB, is imported wherein transit time is longer, a significant amount is parked as inventory or raw material in transit. Further, in the case of fertilizer business inventory days were high due to seasonality involved in agricultural production wherein fertilizers are manufactured throughout the year but consumed only twice during Rabi and Kharif sowing seasons. Thus, the inventory period for the group remains high. However, a moderate collection period and high credit period availed from suppliers kept the operating cycle comfortable for the group.

**Key rating weaknesses**

**Exposure of profitability to raw material price and foreign exchange fluctuation risk:** Raw materials comprise a substantial portion of the cost of sales. LAB is a principle raw material which is a crude derivative and is largely imported. Although sales made to the major FMCG client are on a cost-plus basis, there is a time lag which results in slight fluctuation of margins. On an overall basis the group exports around 20% to 25% of its total sales, which acts as a natural hedge to some extent. However, in the absence of a formal hedging policy and the company being a net importer, the profitability of the group is exposed to foreign exchange fluctuation risk.

**Intermediate market with limited bargaining power against large suppliers and consumers:** The supplier of LAB, which is the most essential raw material for manufacture of LABSA is marked by few suppliers who have access to crude oil resources. In addition, the group essentially caters to large, organized detergent manufacturers with strong distribution channels. LABSA, being an intermediate, sees its margin being squeezed due to the strong bargaining power of the suppliers and consumers.

**Limited product basket:** Close to 75% of the sales of the group are marked by a single product-LABSA and the rest 25% is from sale of fertilizers, Sulphuric acid, and trading income. LABSA is a popular synthetic anionic surfactant. Although LABSA is popular due to low cost as derived from petroleum feed, other surfactants used widely are fatty alcohol sulphates, fatty alcohol ether sulphates, and fatty alcohol ethoxylates are also gaining popularity.

## Liquidity: Strong

The liquidity position of the group remained strong as evident from the average utilization of its fund based working capital limit at ~48%, 8% and close to nil for ARSPL, SFPL & SSPL respectively during the past twelve months ended November 2022 for ARSPL and SSPL while October 2022 for SFPL. As of March 31, 2022, the free cash and liquid investment stood at Rs.122.57 crores as against Rs.97.48 crores as on March 31, 2021, the majority of which were parked in fixed deposits with banks. The current ratio also remained comfortable at 1.46x as of Mar’22, with the operating cycle of the group standing comfortable at 21 days. Further, the company earned GCA of Rs. Rs. 87.33 crores vis-à-vis debt repayment obligation of Rs.3.30 crore in FY22. The company has a repayment obligation of Rs.3.30 crores in FY23 and GCA is expected to be sufficient to meet the same.

## Industry Outlook

About 90% of LAB consumed globally is used to produce laundry detergents, light-duty dishwashing liquids, industrial cleaners, household cleaners and other applications. Being directly linked to the FMCG industry, the global LAB market is expected to move in tandem with the population growth and growing consumer sophistication. With the outbreak of COVID-19, there has been a strong boost in the demand for industrial and household cleaners as the pandemic shifted consumer preference strongly towards healthcare and hygiene related products.

**Analytical approach:** For arriving at the ratings, CARE has combined the risk profiles of Sai Sulphonates Private Limited (SSPL), A.R. Stanchem Private Limited (ARSPL) and Sai Fertilizers Private Limited (SFPL). The above companies operate under common management, are involved in similar lines of business, have operational synergies and exhibit cash flow fungibility.

## 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
Fertilizer
Manufacturing Companies
Consolidation

## About the company

The Fogla group is Kolkata based and began its operations in the year 1968 with a manufacturing unit producing machine parts for jute/textile industries. The group has presence in the domestic and international market through its surfactant, fertilizers, and detergent business.
SSPL, incorporated in 1987, a part of the Fogla group manufactures Linear Alkyl Benzene Sulphonic Acid (LABSA), namely LABSA 90% and LABSA 96%, which is a synthetic surfactant used in the manufacture of laundry and home care products including soaps and detergents. As a backward integration it also manufactures Sulphuric acid for sulphonating of Linear Alkyl Benzene (LAB) to LABSA. It has a plant in Kharagpur, West Bengal with a capacity of 75,000 metric ton per annum (mtpa) for LABSA 90%, 80,000 mtpa for LABSA 96% and 250,000 mtpa for production of Sulphuric acid. SSPL also has a 2.8 MW waste heat regeneration power plant for captive consumption of power.
ARSPL, incorporated in 1994, manufactures and exports LABSA. It has an installed capacity of 70,000 mtpa for LABSA 90% in Kharagpur. For LABSA 96% it uses the processing facility of SSPL against processing charges. It also relies on SSPL for Sulphuric acid used to manufacture LABSA 90%. ARSPL is also a sole dealer for Farabi Petrochemicals Company, Kingdom of Saudi Arabia for its LAB sales in India.
SFPL, incorporated in 1993, manufactures fertilizers namely Single Super Phosphate (SSP) and Nitrogen Phosphorus and Potassium (NPK). It has an installed capacity of 132,000 mtpa for the same in Kharagpur. Spent Sulphuric acid (dilute Sulphuric acid), a by-product released during sulphonating of LAB to LABSA 90% is used to produce SSP.

| Combined Brief Financials (₹ crore) * | March 31, 2021 (UA) | March 31, 2022 (UA) | H1FY23 (UA) |
|---|---|---|---|
| Total operating income | 1314.03 | 1760.63 | 1330.40 |
| PBILDT | 117.39 | 114.29 | 111.14 |
| PAT | 80.15 | 76.99 | NA |
| Overall gearing (times) | 0.24 | 0.23 | NA |
| Interest coverage (times) | 16.71 | 17.30 | NA |

*Combined unaudited (UA) financials of ARSPL, SSPL and SFPL; NA: Not available

| Standalone Brief Financials (₹ crore) * | March 31, 2021 (A) | March 31, 2022 (A) | H1FY23 (UA) |
|---|---|---|---|
| Total operating income | 557.46 | 665.68 | 361.44 |
| PBILDT | 62.74 | 20.01 | 9.42 |
| PAT | 47.95 | 14.62 | NA |
| Overall gearing (times) | 0.51 | 0.31 | NA |
| Interest coverage (times) | 34.87 | 10.95 | NA |

*Standalone audited (A) and unaudited (UA) financials of ARSPL; NA: Not Available

**Status of non-cooperation with previous CRA:** Not applicable
**Any other information:** Not applicable
**Rating history for the last three years:** Please refer Annexure-2
**Covenants of the rated instruments/facilities:** 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 |
|---|---|---|---|---|---|---|
| LT/ST Fund-based/non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | | - | - | - | 55.00 | CARE A; Stable / CARE A1 |

**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 | LT/ST Fund-based/non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | LT/ST* | 55.00 | CARE A; Stable / CARE A1 | - | 1)CARE A; Stable / CARE A1 (25-Feb-22) | 1)CARE A; Stable / CARE A1 (30-Mar-21) | 1)CARE A-; Stable / CARE A2+ (28-Mar-20) |
| 2 | Fund-based - LT-Term Loan | LT | - | - | - | - | 1)Withdrawn (30-Mar-21) | 1)CARE A-; Stable (28-Mar-20) |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable

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

| Sr. No. | Name of Instrument | Complexity Level |
|---|---|---|
| 1 | LT/ST Fund-based/non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | 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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