Sanginita Chemicals Limited

June 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	32.25 (Reduced from 34.75)	CARE BBB-; Negative / CARE A3 (Triple B Minus ; Outlook: Negative/ A Three)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	0.25	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**32.50 (Rs. Thirty-Two Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sanginita Chemicals Limited (SCL) continue to derive strength from long standing experience of its promoters in the chemical industry and its established business relations with reputed client base. The ratings also favourably factor in off-take agreements for one of its products; offtake from which was however impacted in FY22 (FY refers to the period April 1 to March 31) due to the pandemic and its moderate capital structure with absence of any long-term debt. The ratings also take into consideration fund infusion by promoters to support the operations of the company amid moderation in profitability margins.

The ratings, however, continue to be constrained by SCL's moderate scale of operations, thin operating profit margin which further moderated in FY22 due to susceptibility to volatile raw material prices, weak debt coverage indicators and stretched liquidity with high working capital intensity of operations. The ratings are further constrained on account of requirement of strict adherence to pollution control & environmental compliance norms as per government regulations.

Rating Sensitivities

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

- Healthy volume-driven growth in scale of operations with total operating income (TOI) of more than Rs.250 crore on sustained basis
- Improvement in PBILDT margin to more than 5% on sustained basis while maintaining RoCE above 10% and overall gearing below 1.00x
- Improvement in operating cycle to below 75 days on sustained basis resulting in reduced reliance on working capital borrowings as well as effective management of risk associated with price volatility

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

- Significant decline in scale of operations with TOI below Rs.145 crore along with any change in customer profile adversely impacting sales volume of SCL
- Decline in PBILDT margin below 3% on sustained basis
- Elongation in operating cycle to more than 120 days on sustained basis resulting in increased reliance on working capital bank borrowings.
- Deterioration in overall gearing beyond 1.50x on account of increase in working capital intensity or any major debt funded capex

Outlook: Negative

The revision in outlook from 'Stable' to 'Negative' is on account of CARE's expectation of SCL's scale of operations or operating profitability remaining lower than previously envisaged over the medium term which may also lead to weakening of its debt coverage indicators.

The Outlook shall be revised to 'Stable' in case of sales volume driven growth in SCL's scale of operations and operating profit margin resulting in improvement in debt coverage indicators while maintaining its moderate capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Mr. Dineshsinh Chavada, Chairman & MD, has over a decade long experience in the chemical industry and looks after the purchase and finance functions of the company. He is supported by his son Mr. Vijaysinh Chavada, a chemical engineer, who takes care of production and research & development. The sales and marketing functions are managed jointly by the directors. SCL has an established presence of more than a decade in the domestic market for metal based chemical intermediates. During FY22, interest free unsecured loans of Rs.3.38 crore were infused by promoters to support operations of the company.

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

Reputed clientele along with presence of off-take agreement albeit lower offtake in FY22
SCL supplies chemical intermediates to some of the well-established entities in the dyes and pigments industry and has an established relationship with them since over a decade. In October 2017, SCL entered in an off-take agreement with Hindustan Zinc Limited (HZL) for a period of three years for supply of copper sulphate, which expired in September 2020. The agreement with HZL was renewed in Q3FY22 on annual basis.
SCL also entered into an off-take agreement with another Vedanta group entity operating in Africa as well as an Australian entity for supply of copper sulphate. However, offtake from these two entities was lower than envisaged in FY22 due to covid-19 pandemic and shipping issues faced on account of the same.

Moderate capital structure albeit weakening of debt coverage indicators
SCL's capital structure continued to remain moderate marked by overall gearing of 0.87x as on March 31, 2022 (P.Y.: 0.74x) with no external long-term debt as on FY22 end**.** Moderation in gearing compared to previous year was mainly due to infusion of interest-free unsecured loans by related parties in FY22.
However, debt coverage indicators of SCL weakened in FY22 due to lower operating profit and cash accruals coupled with higher o/s debt with PBILDT interest coverage of 1.33x (P.Y. 1.52x), Total debt/ PBILDT of 12.60x (P.Y. 7.45x) and total debt/ GCA of 37.10x (P.Y.20.42x).

Key Rating Weaknesses
Moderate scale of operations with decline in operating profitability which is susceptible to volatile raw material prices:
SCL's key products include cuprous chloride, copper sulphate, CPC blue crude and cupric chloride, which are majorly copper derivatives. During FY22, SCL's TOI increased by 20% y-o-y to Rs.198.07 crore on back of increase in sales realization of its products while sales volume moderated by 9% y-o-y due to lower offtake from its customers owing to shipping issues as well as lower demand on back of the pandemic. Operating profit (PBILDT) margin of SCL also declined by 111 bps y-o-y to 1.38% in FY22 mainly due to higher raw material cost incurred during the period due to volatility in copper prices which could not be entirely passed on to the customers. Also, due to both, lag in change in sales price in the domestic market and raw material procurement by SCL at higher price, margins were low. In line with this, despite lower interest cost on y-o-y basis, PAT margin was lower by 29 bps to 0.35% which resulted in only marginal gross cash accrual of Rs.0.93 crore in FY22 (Rs.1.42 crore in FY21). Considering raw material cost is the major cost driver for SCL and price of the same is volatile in nature, profitability of SCL remains susceptible to volatility in raw material prices and company's ability to pass on the same to its customers shall remain crucial for its credit risk profile.

Stringent pollution norms for the chemical industry: Considering the hazardous nature of waste generated by the chemical industry and its impact on the pollution levels, the operations of SCL are exposed to stringent environmental regulations for disposal of effluents generated. Non-compliance may lead to closure of the manufacturing facility.

Liquidity: Stretched
SCL's liquidity continued to remain stretched with a long operating cycle and resultant largely full utilization of its working capital limits, alongwith a meagre free cash balance.
The company's operating cycle improved to 87 days in FY22 from 117 days in FY21 with improvement in collection period to 49 days from 75 days in FY21. While outstanding receivables declined as on FY22 end; receivables outstanding for more than 120 days increased to Rs.7.29 crore as on March 31, 2022, as against Nil as on March 31 ,2021Timely recovery of these receivables shall be crucial for SCL's prospects. Creditor period remained marginal at 6 days in FY22 (5 days in FY21) as the company generally buys its main raw material, copper, on spot / advance payment to avail a cash discount. .
Cash flow from operations (CFO) was negative at Rs.3.21 crore in FY22 as against positive CFO of Rs.8.69 crore in FY21, due to increase in advance given to suppliers. Average utilization of working capital limits continued to remain high at 94% for the past 12 months ended March 2022, highlighting the working capital intensity of the company's operations. Also, company had meagre free cash and bank balance of Rs.0.01 crore as on March 31, 2022. However, SCL had no long-term debt with scheduled repayments as on FY22 end, providing some support to its liquidity.

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 Companies

About the Company
Incorporated in 2005, SCL (erstwhile Sanginita Chemicals Private Limited) is promoted by Mr. Dinesh B. Chavada and his son, Mr. Vijaysinh Chavada. The company is engaged in manufacturing of metal-based (mainly copper-based) inorganic chemical intermediates at its facility located at Chhatral near Gandhinagar in Gujarat.

SCL started its operations by taking over the business of M/s. Sanginita Chemicals which was engaged in manufacturing of mainly two metal-based inorganic chemicals intermediates, viz. Cuprous Chloride and Cupric Chloride. Over a period, SCL has regularly expanded its manufacturing capacity and as on March 31, 2022, it had an installed capacity of 12,200 MTPA for manufacturing metal based inorganic chemicals such as copper sulphate, cuprous chloride, cupric chloride, and CPC blue crude.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A*)
Total operating income	160.01	164.88	198.07
PBILDT	8.35	4.11	2.74
PAT	3.37	0.76	0.35
Overall gearing (times)	0.91	0.74	0.87
Interest coverage (times)	2.69	1.60	1.33

A: Audited; *abridged financials published on National Stock Exchange

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	32.25	CARE BBB-; Negative / CARE A3
Non-fund-based-Short Term	-	-	-	0.25	CARE A3

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	32.25	CARE BBB-; Negative / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (11-Jun-21)	1)CARE BBB-; Stable / CARE A3 (29-Jul-20)	1)CARE BBB-; Stable / CARE A3 (20-Jun-19)
2	Fund-based - LT-Working capital Term Loan	LT	-	-	-	-	-	1)Withdrawn (20-Jun-19)
3	Non-fund-based-Short Term	ST	0.25	CARE A3	-	1)CARE A3 (11-Jun-21)	1)CARE A3 (29-Jul-20)	1)CARE A3 (20-Jun-19)
4	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	-	1)Withdrawn (20-Jun-19)

* Long Term / Short Term

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

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

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based-Short Term	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 instrument: CARE Ratings Ltd. 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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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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