Sanginita Chemicals Limited

June 11, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term/Short term Bank Facilities	34.75	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short term Bank Facilities	0.25	CARE A3 (A Three)	Reaffirmed
Total Facilities	35.00 (Rupees Thirty Five crore 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 the long-standing experience of its promoters in the chemical industry and its established business relations with a reputed client base. The ratings also favorably factor in presence of off-take agreements for one of its products, SCL's moderate capital structure with absence of any long-term debt as well as its moderate debt coverage indicators.

The ratings, however, continue to be constrained by SCL's moderate scale of operations, moderation in its already thin profitability during FY21 due to susceptibility to volatile raw material prices which increased significantly during the year and its 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.

Key Rating Sensitivities

Positive Factors

- 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 7% on sustained basis while maintaining RoCE above 15% and overall gearing below 0.70x
- Shortening of 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

- Significant decline in scale of operations with TOI below Rs.145 crore and PBILDT margin below 4.50% on sustained basis
- Any change in customer profile or significant decline in sales volume of SCL 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

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.

Reputed clientele along with presence of off-take agreements: 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. Post this, SCL 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. Combined off-take of these two entities is expected to surpass that of HZL, thus providing revenue visibility to the company to an extent. However, timely renewal of these contracts will be crucial for SCL's prospects.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Moderate capital structure and debt coverage indicators: SCL's capital structure continued to remain moderate marked by overall gearing of 0.74x as on March 31, 2021. Improvement in the same from the level of 0.91x as on March 31, 2020 was on account of lower outstanding working capital bank borrowings at year end, with recovery of receivables. Also, SCL had no long-term debt with scheduled repayment outstanding as on FY21 end, providing comfort to that extent.
SCL's debt coverage indicators weakened during FY21 due to lower operating profit as well as cash accruals owing to significant increase in raw material prices but continued to remain moderate with a PBILDT interest coverage of 1.52x (P.Y.: 2.69x) and total debt/ PBILDT of 7.45x (4.19x).

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 FY21, SCL's total operating income (TOI) largely remained stable at FY20 level. Sales volume was lower by ~19% y-o-y mainly due to decline in the sales of copper sulphate owing to expiration of the contract with HZL, which was however offset by increase in sales realization across product categories owing to a steep increase in copper prices during the year.
Operating profit (PBILDT) margin of SCL however declined by 286 bps y-o-y to 2.36% in FY21 as the rise in copper prices could not be entirely passed on to the customers during the period. In line with this, despite lower interest cost on y-o-y basis, PAT margin was lower by 164 bps at 0.46% (2.10% in FY20) which resulted in only marginal gross cash accrual of Rs.1.42 crore in FY21 (Rs.4.10 crore in FY20). 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.

Liquidity: Stretched
SCL's liquidity remained stretched due to an elongated operating cycle, resultant largely full utilization of its working capital limits, and meagre free cash balance.
Operating cycle remained elongated at 117 days in FY21 (118 days in FY20) with improvement in collection period to 75 days from 80 days being offset by a lower creditor period. As on FY21 end, outstanding receivables declined to Rs.29 crore from Rs.39 crore as on FY20 end with 'Nil; receivables outstanding for more than 120 days. Creditor period remained marginal at 5 days in FY21 (9 days in FY20) as the company generally buys its main raw material, copper, on spot / advance payment to avail cash discounts and competitive prices.
On the back of recovery from receivables, cash flow from operations (CFO) improved to Rs.8.48 crore in FY21 as against negative CFO of Rs.1.68 crore in FY20. This led to lower outstanding working capital borrowings as on FY21 end. However, average utilization of working capital limits continued to remain high at 96% for the past 12 months ended April 2021 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, 2021.
SCL had no long-term debt with scheduled repayments as on FY21 end, providing some support to its liquidity. Also, SCL did not avail any moratorium on its debt facilities, offered by Reserve Bank of India (RBI) as a covid-19 relief measure. Nevertheless, considering the increased raw material prices and limited availably of external working capital limits and internal accruals, effective working capital management shall remain crucial from credit perspective.

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.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis - Non Financial Sector
Rating Methodology - Manufacturing Companies
Financial ratios - Non- Financial Sector

About the Company
Incorporated in 2005, SCL (erstwhile Sanginita Chemicals Private Limited) is promoted by Mr. Dineshsinh 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, 2021, 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)	FY20 (A)	FY21 (A)*
Total operating income	160.01	164.66
PBILDT	8.35	3.89
PAT	3.37	0.76
Overall gearing (times)	0.91	0.74
Interest coverage (times)	2.69	1.52

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

Status of non-cooperation with previous CRA: CRISIL has suspended its ratings vide press release dated July 24, 2014 on account of non-cooperation by SCL with CRISIL's efforts to undertake a review of the outstanding ratings.

Any other information: Not Applicable

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

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	-	-	-	34.75	CARE BBB-; Stable / 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	34.75	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (29-Jul-20)	1)CARE BBB-; Stable / CARE A3 (20-Jun-19)	1)CARE BBB-; Positive / CARE A3 (25-May-18)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	-	1)Withdrawn (25-May-18)
3.	Fund-based - LT-Working capital Term Loan	LT	-	-	-	-	1)Withdrawn (20-Jun-19)	1)CARE BBB-; Positive (25-May-18)
4.	Non-fund-based-Short Term	ST	0.25	CARE A3	-	1)CARE A3 (29-Jul-20)	1)CARE A3 (20-Jun-19)	1)CARE A3 (25-May-18)
5.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	1)Withdrawn (20-Jun-19)	1)CARE A3 (25-May-18)

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple
2.	Non-fund-based-Short Term	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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Ms. Nikita Goyal
Contact no. - +91-79-4026 5670
Email ID - nikita.goyal@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact no. - +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**