Sigachi Industries Limited (Erstwhile Sigachi Industries Private Limited)
MARCH 12, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	28.03 (Reduced from 30.03)	CARE BBB; Positive (Triple B; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	8.00 (Enhanced from 6.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	36.03 (Rs. Thirty-Six Crore and Three Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the outlook assigned to the bank facilities of Sigachi Industries Limited (Sigachi) from 'Stable' to 'Positive' factor in improvement in the performance of the company during 9MFY21 (A) which has resulted in a comfortable financial risk profile and also factors in its near plans to raise the funds by way of issuance of fresh equity through Initial Public Offering (IPO), which is expected to further strengthen its financial risk profile. The ratings continue to derive its strengths from qualified promoters with extensive experience in excipient industry, location advantage of the business divisions, globally compliant manufacturing standards, diversified MCC product portfolio, established supplier and customer base, comfortable capital structure and debt coverage indicators in FY20 (refers to period April 01 to March 31). The ratings, however, continue to be tempered by modest scale of operations, marginal decline in operating profitability margins and elongation in working capital cycle during FY20, equity funded capex plans, susceptibility in profit margins due to volatility in prices of raw material & foreign currency rates and competition from reduced quality products.

Key Rating Sensitivities

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

- Increase in scale of operations marked by total operating income increasing by more than 20% while maintaining PBILDT margin at 20% and above on a sustained basis.
- Successful raising of funds by way of issuance of fresh equity through IPO.

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

- Elongation of operating cycle beyond 150 days in future years
- Significant cost and time overrun in completing the proposed capex

Outlook: Positive

The 'Positive' outlook on the rating takes into cognizance significant improvement in the overall performance of the company during 9MFY20 (A), which if continues may have a positive impact on its credit ratings. The outlook, however, may be revised to 'Stable' if the improvement in key financial parameters of the company is substantially lower or if the same deteriorates going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

Sigachi has been promoted by Mr. Rabindra Prasad Sinha, Mr. S. Chidambarnathan and Mr. Amit Raj Sinha. Mr. Rabindra Prasad Sinha and S. Chidambarnathan, who are the whole-time directors have been associated with the company since inception. Mr. Rabindra Prasad Sinha has more than three decades of experience in the chemical industry. Mr. S. Chidambarnathan has an experience of more than five decades in the field of variety of chemicals and derivatives of cellulose. The Managing Director and Chief Executive Officer, Amit Raj Sinha has been instrumental in strengthening the research and development division of Sigachi. 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.

Location advantage

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

With three units located across Gujarat and Telangana, Sigachi has an aggregate installed capacity of 11,880 MTPA as on March 31, 2020. 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).
The production facility at Dahej- Special Economic Zone, with next door 'Dahej Port', gives an added advantages in terms of tax benefits, reduced transportation costs and faster turn-around of raw material to finished goods. Dahej unit contributed 40% of total revenue during FY20.

Globally compliant manufacturing standards
Over the years, in order to compete and match the standards of its international and domestic contenders, Sigachi has invested in business strengthening by attaining certifications like: EXCiPACT GMP (Pharmaceutical Excipients Good Manufacturing Practices), EDQM-CEP (European Directorate for the Quality of Medicine and health care- Certificate of Suitability to the monographs of the European Pharmacopoeia), WHO-GMP (World Health Organization Good Manufacturing Practice), ISO 9001:2015 (International Standard for Standardization) and FSSC 22000 (Food Safety System Certification). In addition to the above, the production is also amenable to Halal, Kosher criterions and the company is certified for the same.
Further, the facility is supported by a Research & Development (R & D) Team (approved by Government of India, Ministry of Science & Technology and Department of Science and Industrial Research) that aims to develop the quality of existing products and also new molecules in other segments.

Diversified MCC product portfolio
Sigachi has been one of the early participants in the MCC industry in India, which gave the company an edge to comprehensively understand the industry requirements. Since entering the market, the company has developed 50 grades of MCC, ranging from 15 microns to 250 microns having varied applications. MCC is widely used as an excipient for finished dosages in the pharmaceutical industry, as a stabilizer, anti-caking agent, fat substitute and emulsifier in food industry and as a fat substitute, thickener and binder in cosmetics.
The brands such as HiCel and AceCel command a price premium in the market and have contributed 53% and 39% of sales to Sigachi's revenue during FY20.

Established supplier and customer network with diversified mix of export and domestic sales
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 in the domestic market. The company imports wood pulp from Hong Kong, Switzerland, USA, Germany, Canada etc. Sigachi is dependent on a few suppliers for raw materials. The top five suppliers accounted for 75% of the purchases of raw materials in FY20.
Further, the company has been associated with some clients in the industry for more than two decades on an average. The top 10 customers contributed 46% of the total sales during FY20. Usually, ~70% of the order book comprises of repeat orders from its long standing clients. Sigachi exports to 41 countries, which primarily includes Australia, USA, U.K., Poland, Iran, Denmark, China, Spain etc.

Increase in total operating income albeit marginal moderation in profitability margins
The total operating income (TOI) of the company has increased by 9% from Rs. 131.80 crore during FY19 to Rs. 143.71 crore during FY20 owing to higher sales volumes and also better realisations on MCC products.
The PBILDT margins of the company has moderated from 23.09% during FY19 to 20.59% during FY20. The company had incurred higher overhead expenses during Q4FY20 due to Covid-19 which has resulted in decrease in operating profit levels during the said period. Despite decrease in PBILDT margin, the PAT margin has remained constant at 14.21% during FY20 (14.93% during FY19) due to decrease in finance costs.
Furthermore, during 9MFY21 (A) (refers to period April 01- December 31, 2020), the company has achieved PAT of Rs. 21.01 crore on TOI of Rs. 142.18 crore.

Comfortable capital structure and debt coverage indicators
The capital structure of the company improved and stood comfortable as on 31st March 2020. The debt equity ratio and overall gearing marginally improved from 0.07x and 0.51x as on March 31, 2019 to 0.05x and 0.49x respectively as on March 31, 2020 owing to increase in networth. The company's net worth improved from Rs. 46.14 crore as on March 31, 2019 to Rs. 66.20 crore as on March 31, 2020 due to increase in equity share capital and accretion of profits to net worth.
The interest coverage ratio improved significantly from 9.16x during FY19 to 13.56x during FY20 on account of decrease in finance expenses. This decrease in finance cost was primarily on account of lowered interest rates for the bank borrowings due to reduction in MCLR rates.
Total debt/GCA deteriorated marginally from 1.07x in FY19 to 1.26x FY20 owing to increase in total debt levels. The outstanding balance of working capital borrowings as on March 31, 2020 stood higher, although the utilization levels remained moderate.

Stable industry outlook

The growth of the MCC market is primarily triggered by the increasing demand for processed food and growing production of pharmaceutical and cosmetic & personal care products. Among end-user industries, pharmaceutical segment accounted for a dominant share in the market, owing to high use of microcrystalline cellulose in tablets. This is due to its chemical inertness and dry binding properties. Furthermore, food and beverage segment are expected to exhibit a substantial growth in the global microcrystalline cellulose market owing to its wide application in various food and beverages including desserts, frozen food, dairy products, and baked goods. In addition to this, it is also used as a fat replacer and helps maintain the food consistency.

Key Rating Weaknesses

Modest scale of operations

With total operating income at Rs. 143.71 crore in FY20 (Rs. 131.80 crore in FY19), Sigachi is considered to be a moderately sized entity. Also, the company's net worth as on March 31, 2020 stood at Rs. 66.20 crore. However, the company's total operating income stood at 142.18 crore in 9MFY21 (A) with a tangible net worth of Rs. 86.52 crore as on December 31, 2020.

Elongation in working capital cycle

The operating cycle of Sigachi elongated during FY20 due to increase in average collection and inventory days. The company maintains inventory level of around 2-3 months to enable smooth management of manufacturing process which results in around one month of inventory level each for raw materials and work-in-progress along with 10-15 days of finished stock to meet clients' requirement. However, during March 2020, due to COVID-19, the company faced issues with respect to transportation and logistics due to which the dispatch of finished goods got slightly delayed.

Furthermore, the company extends an average credit period of 60-75 days to its customers on account of their long standing relationship. Sigachi avails an average credit period of up to 30 days from its suppliers. Due to the aforesaid mentioned factors, the company relies on internal accruals as well as working capital borrowings to fund day to day operations.

Susceptibility in profit margins due to volatility in prices of raw material and foreign currency rates

The principal raw material used in manufacturing micro crystalline cellulose is refined wood pulp which is imported from Hong Kong, USA, Switzerland, Canada etc. In FY20, the cost of raw material consumed amounted to 51% of the total operating income. The availability and price of the raw materials may be subject to a number of external parameters such as economic factors, seasonal factors, environmental factors and changes in government policies and regulations, including those relating to the excipient industry in general. In addition to the fluctuations in raw material prices, the volatility in foreign exchange rates invariably influences the profit margins of Sigachi owing to its substantial export sales and raw material imports. Nevertheless, the foreign exchange earnings are higher than foreign exchange expenses as the company has natural hedging. In FY20, the company reported a foreign exchange gain of Rs. 1.17 crore as against Rs. 0.41 crore in FY19.

Uncertainty with regard to profitability due to admittance of reduced quality products and competition from existing players

MCC stands to be the flagship product segment of the company with around 50 grades, contributing 98% to the total sales of the company. The MCC industry in India is competitive with both organized and unorganized players. Increasing competition may result in pricing pressures and decreasing profit margins or loss of market share, any of which could substantially harm the business and results of operations. Further, the risks associated with the entry of reduced quality products in the MCC industry inevitably persist where the presence of unorganized players with limited regulatory approvals cause a direct threat to Sigachi's sales volume and profitability. Nevertheless, the risk is mitigated to some extent as the products manufactured by organized players are preferred over the ones manufactured by the local players possessing limited regulatory approvals.

Equity funded capex

The company has planned to undertake capacity expansion project on its existing manufacturing premises at Dahej and Jhagadia with an estimated project cost of Rs. 47.35 crore. The project shall be funded by equity raised through IPO platform (100%). The proposed IPO is a fresh issuance of upto 28.41 lakh crore shares of face value of Rs. 10 each. The company intends to utilise issue proceeds for expansion of the production facilities at Dahej and Jhagadia, Gujarat and general corporate purposes. The proposed expansion will add 3,600 MTPA capacity each to the Dahej and Jhagadia facilities, taking the total capacity to 7,890 MTPA and 5,760 MTPA respectively. The estimated cost for expansion of production facility at Dahej and Jhagadia is Rs. 22.57 crore and Rs. 24.78 crore respectively. The company envisages on initiating the commercial operations for the said project in March/April 2022. Further, the company has enough accruals and liquid funds at its disposal that in case of any delay in raising funds, the company will be able to comfortably complete the capex at one of the unit using internal accruals.

Liquidity – Adequate
The liquidity profile of the company is adequate. The company has been generating sufficient cash accruals vis-à-vis repayment obligations. The company has unutilized bank limits around 55%-60% and cash & cash equivalents to the tune of Rs. 16.35 crore as on December 31, 2020. The net cash flow from operations stood at Rs. 11.62 crore in FY20 which was adequate to meet its incremental working capital needs in the immediate future. Also, Sigachi has not availed any moratorium which was provided as a part of RBI Covid-19 regulatory package. Considering the cash accruals generated during the past and the current performance, it is expected that the debt obligations could be met comfortably.

Analytical approach: Standalone
Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity analysis of Non-financial sector entities
Criteria for Short term Instruments

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. 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, in order to meet the rising industry demand for MCC. However, the aforementioned companies amalgamated with Sigachi in 2014. Further, in December 2019, the company was converted from a private limited company to a public limited company and consequently the name of the company was changed to 'Sigachi Industries Limited'. The company manufactures Micro Crystalline Cellulose (MCC), which is widely used in pharmaceutical, food, beverage, cosmetic and paint industry. The company's foreign wholly owned subsidiary, Sigachi U.S. Inc. which was incorporated in 2017 markets and distributes company's products to their international customers specifically targeting the American market.

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total operating income	131.80	143.71
PBILDT	30.43	29.59
PAT	19.68	20.42
Overall gearing (times)	0.51	0.49
Interest coverage (times)	9.16	13.56

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: 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 - LT-Cash Credit	-	-	-	12.00	CARE BBB; Positive
Fund-based - LT-Term Loan	-	-	June 2021	0.10	CARE BBB; Positive
Non-fund-based - ST-Letter of credit	-	-	-	8.00	CARE A3+
Non-fund-based - LT-Bank Guarantees	-	-	-	0.75	CARE BBB; Positive

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 - LT-EPC/PSC	-	-	-	8.00	CARE BBB; Positive
Fund-based - LT-FBN / FBP	-	-	-	5.00	CARE BBB; Positive
Fund-based - LT-Term Loan	-	-	May 2025	2.18	CARE BBB; Positive

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-Cash Credit	LT	12.00	CARE BBB; Positive	-	1)CARE BBB; Stable (17-Dec-19)	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)	1)CARE BBB-; Stable (16-Feb-18) 2)CARE BBB-; Stable (07-Feb-18)
2.	Fund-based - LT-Term Loan	LT	0.10	CARE BBB; Positive	-	1)CARE BBB; Stable (17-Dec-19)	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)	1)CARE BBB-; Stable (16-Feb-18)
3.	Non-fund-based - ST-Letter of credit	ST	8.00	CARE A3+	-	1)CARE A3+ (17-Dec-19)	1)CARE A3 (06-Sep-18) 2)CARE A3 (06-Sep-18)	1)CARE A3 (16-Feb-18)
4.	Non-fund-based - LT-Bank Guarantees	LT	0.75	CARE BBB; Positive	-	1)CARE BBB; Stable (17-Dec-19)	1)CARE A3 (06-Sep-18) 2)CARE A3 (06-Sep-18)	1)CARE A3 (16-Feb-18)
5.	Fund-based - LT-EPC/PSC	LT	8.00	CARE BBB; Positive	-	1)CARE BBB; Stable (17-Dec-19)	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)	1)CARE BBB-; Stable (16-Feb-18)
6.	Fund-based - LT-FBN / FBP	LT	5.00	CARE BBB; Positive	-	1)CARE BBB; Stable (17-Dec-19)	-	-
7.	Fund-based - LT-Term Loan	LT	2.18	CARE BBB; Positive	-	1)CARE BBB; Stable (17-Dec-19)	-	-

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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Sr. No.	Name of the Instrument	Complexity Level
2.	Fund-based - LT-EPC/PSC	Simple
3.	Fund-based - LT-FBN / FBP	Simple
4.	Fund-based - LT-Term Loan	Simple
5.	Non-fund-based - LT-Bank Guarantees	Simple
6.	Non-fund-based - ST-Letter of credit	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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