

Sanginita Chemicals Limited

April 26, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	32.25	CARE BB+; Stable / CARE A4+	Revised from CARE BBB-; Negative / CARE A3
Short Term Bank Facilities	0.25	CARE A4+	Revised from CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Sanginita Chemicals Limited (SCL) is on account of continuous decline in sales volume and consequent capacity utilisation levels for last four years ending FY23 (refers to the period from April 01 to March 31) due to lower than assured offtake by its key clientele and dip in international demand. The ratings continue to remain constrained on account of thin operating margin due to susceptibility of margins to volatile raw material prices leading to weak debt coverage indicators and stretched liquidity, requirement of strict adherence to pollution control & environmental compliance norms as per government regulations and high working capital intensity of operations.

The ratings, however, derive strength from long standing experience of its promoters in the chemical industry, reputed clientele and SCL's moderate capital structure with absence of any long-term debt.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Healthy volume-driven growth in scale of operations with total operating income (TOI) of more than Rs.200 crore on sustained basis
- Improvement in PBILDT margin to more than 4% on sustained basis while maintaining RoCE above 8%
- Improvement in liquidity marked by reduction in reliance on external working capital borrowings.

Negative factors

- Significant decline in scale of operations with TOI below Rs.120 crore along with any change in customer profile adversely impacting sales volume of SCL
- Decline in PBILDT margin below 1.6% on sustained basis
- Deterioration in overall gearing beyond 1.2x on account of increase in working capital intensity or any major debt funded capex

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that company will continue to benefit from vast industry experience of the promoters in metal-based inorganic chemical industry and its moderate financial risk profile in near to medium term.

Detailed description of the key rating drivers:

Key weaknesses

Continuous decline in sales volume and capacity utilisation levels leading to dip in total operating income (TOI) and thin profitability

SCL's key products include cuprous chloride, copper sulphate, CPC blue crude and cupric chloride, which are majorly copper derivatives. SCL's sales volume has declined continuously during last four years ending FY23 due to COVID-led restrictions followed by adverse macro-economic developments. Moreover, discontinuation of assured offtake agreement with Hindustan Zinc Limited (HZL) and lower than contracted offtake by Vedanta group entity operating in Africa as well as an Australian entity for supply of copper sulphate due to shipping issues and adverse geopolitical issues resulted in lower demand in major export economies. Consequently, SCL's capacity utilisation levels also reduced y-o-y to 39% during FY23, as compared to 60% in FY20. On y-o-y basis, SCL's sales volume of Cuprous Chloride declined by 43% during FY23 and its TOI declined by 25% y-o-y to Rs.149.13 crore. However, the dip in sales volume was partially mitigated by increase in sales realisation during FY23.

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

SCL's PBILDT and PAT margin has remained thin during last three years ended FY23 and stood at 2.42% and 0.28% respectively mainly due to higher raw material cost which could not be entirely passed on to the customers. Operating margin prior to FY21 remained in range of 4-5%. In line with thin profit margins, company reported marginal cash profit of Rs.0.98 crore in FY23 (Rs.0.93 crore in FY22). 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.

Weak Debt Coverage Indicators

Debt Coverage indicators of company continued to remain weak on account of low operating profit and cash accruals. PBILDT interest coverage remained at 1.44x (P.Y.1.43x), Total debt/ PBILDT of 7.93x (P.Y. 11.66x) and total debt/ GCA of 29.12x (P.Y. 37.10x) as on March 31, 2023.

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.

Key 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. Further, promoters have demonstrated support in form of interest free unsecured loans as and when required. Interest free unsecured loans stood at Rs.2.07 crore as on March 31, 2023 (Rs.3.56 cr in FY22)

Moderate capital structure

SCL's capital structure continued to remain moderate marked by overall gearing of 0.71x as on March 31, 2023 (P.Y.: 0.87x) with no external long-term debt as on FY23 end.

Reputed clientele

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.

Liquidity: Stretched

SCL's liquidity continued to remain stretched with a long operating cycle, full utilization of its working capital limits and meagre free cash balance. SCL's operating cycle elongated further to 106 days in FY23 (FY22: 86 days) with high collection period of 61 days in FY23 from 49 days in FY22. Creditor period remained moderate at 18 days in FY23 (6 days in FY22) as the company generally buys its main raw material, copper, on spot / advance payment to avail a cash discount. Advances given to suppliers declined in FY23 with increase in working capital intensity of operations. Average utilisation of working capital limits continued to remain high at 93% for the past 12 months ended March 2023, highlighting the working capital intensity of the company's operations. Also, company had meagre free cash and bank balance of Rs.0.02 crore as on March 31, 2023. However, SCL had no long-term debt with scheduled repayments as on FY23 end, providing some support to its liquidity.

Environment, social, and governance (ESG) risks: Not Applicable

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

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, 2023, 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	164.88	198.29	149.13
PBILDIT	4.11	2.96	3.61
PAT	0.76	0.35	0.42
Overall gearing (times)	0.74	0.87	0.71
Interest coverage (times)	1.60	1.43	1.44

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

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: Annexure-4

Lender details: Annexure-5

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
Fund-based/Non-fund-based-LT/ST		-	-	-	32.25	CARE BB+; Stable / CARE A4+
Non-fund-based-Short Term		-	-	-	0.25	CARE A4+

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 2023-2024	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	32.25	CARE BB+; Stable / CARE A4+	-	1)CARE BBB-; Negative / CARE A3 (06-Jun-22)	1)CARE BBB-; Stable / CARE A3 (11-Jun-21)	1)CARE BBB-; Stable / CARE A3 (29-Jul-20)
2	Non-fund-based-Short Term	ST	0.25	CARE A4+	-	1)CARE A3 (06-Jun-22)	1)CARE A3 (11-Jun-21)	1)CARE A3 (29-Jul-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable
Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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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About us:

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