Sigachi Industries Limited

August 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	13.93	CARE A- (RWD)	Placed on Rating Watch with Developing Implications
Long-term / Short-term bank facilities	22.10	CARE A- / CARE A2 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Sigachi Industries Limited (SIL) have been placed on rating watch with developing implications (RWD) following the announcement that the acquisition of 80% stake in Trimax Bio Sciences Private limited for a consideration of ₹100 crore. Furthermore, SIL's board has approved allotment of convertible warrants (through which the company is expected to raise around ₹286 crore). CARE Ratings Limited (CARE Ratings) will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The reaffirmation in the rating assigned to the bank facilities of SIL continues to derive strength from the proven track record, vast experience of the promoters with qualified management team, integrated and accredited manufacturing facilities, strong network base, favourable location of units, satisfactory financial risk profile, adequate liquidity, and stable industry outlook. The ratings strengths are however tempered by modest scale of operations, high dependence on import for raw material, profitability margins being susceptible to fluctuations in raw material prices, project execution risk and elongated operating cycle.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Steady growth in TOI with PBILDT margin of above 20% along with maintaining strong ROCE ratio.
- Ability of the company to complete the project without any time and cost overrun and generate revenue as envisaged.

Negative factors

- Notable decline in TOI by more than 30% y-o-y and PBILDT margin falling below 15%
- Elongation of operating cycle beyond 140 days.

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers:

Key strengths

Proven track record, vast experience of promoters and qualified management team: SIL has been promoted by Rabindra Prasad Sinha, S. Chidambarnathan and Amit Raj Sinha in 1989. Rabindra Prasad Sinha and S. Chidambar Nathan, who are the whole-time directors have been associated with the company since inception. They are the founding members and are actively involved in the strategic decision making for SIL, pertaining to corporate and administrative affairs, financial operations, expansion activities, business development and management of overall business. Rabindra Prasad Sinha has more than three decades of experience in the chemical industry. He has played an instrumental role in setting up of the wholly owned subsidiary, Sigachi US Inc. and in expansion of export operations. S. Chidambar Nathan has an experience of more than five decades in the field of variety of chemicals and derivatives of cellulose. He has played an instrumental role in expanding the domestic operation of the company and in setting up of the manufacturing units in Gujarat. The Managing Director and Chief Executive Officer, Amit Raj Sinha has been instrumental in strengthening the research and development division of SIL. He along with his team from the R&D division have published various research papers in renowned journals such as International Journal of Pharmaceutical Sciences and Research, European Journal of Biomedical and Pharmaceutical sciences, World Journal of Pharmaceutical Research, International Journal of Recent Scientific Research, etc. The management is supported by an experienced and professional team

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

with considerable experience in the excipient industry. Company will benefit from the extensive experience of promoters and management in the industry, going forward.

Favourable location of the facilities: With a view to strategically expand operations and ensure market presence in domestic and international markets, SIL has set up three multi-locational manufacturing units in Jhagadia, Dahej and Hyderabad which helps it provide timely, efficient and customized delivery of products in terms of the specific demographic needs. With three units located across Gujarat and Telangana, SIL has an aggregate installed capacity of 13,188 MTPA as on March 31, 2022. The facilities house equipment and systems and comply with the norms of United States Food and Drug Association (USFDA) and World Health Organization Good Manufacturing Practice (WHO-GMP). This apart, the company has following certifications Hazard Analysis Critical Control Point (HACCP) , ISO 9001:2015 and European Directorate for the Quality of Medicines & HealthCare (EDQM).
The production facility at Dahej- Special Economic Zone, with next-door 'Dahej Port', gives added advantages in terms of tax benefits, reduced transportation costs and faster turn-around of raw material to finished goods. The Dahej unit contributed 41% of total revenue during FY22.

Offering wide range of products: The company currently offers 59 distinct grades of microcrystalline cellulose (MCC) through its two state-of-the-art manufacturing facilities in Hyderabad and Gujarat. MCC is commonly utilised in the pharmaceutical sector as an excipient for finished doses. MCC's non-reactive, free-flowing, and adaptable character makes it useful in the pharmaceutical, food, nutraceutical, and cosmetic industries. MCC is sold by the company in various grades ranging from 15 to 250 microns for the domestic and export markets under the HiCel and AceCel brands. Exports account for 75.43 % of revenue, with domestic businesses accounting for the remaining 24.57%.

Integrated and accredited manufacturing facilities: The manufacturing units are accredited with quality control certifications from recognized international and domestic bodies. The company's quality division and in-house testing laboratories are equipped with equipment such as tablet hardness tester, tablet friability tester, UV spectrophotometer, etc. for ensuring the quality and compliance in accordance with international standards at all times. SIL received a certificate of registration from United Registrar of Systems for certifying that the quality management systems of all manufacturing units are in compliance with ISO 9001:2015. This apart, the company also received a certificate of registration from TUV NORD CERT GmnH applying management system as per Food Safety System Certification 2000 (Version 4.1) for the manufacturing unit situated in Hyderabad. These certifications will enhance the product demand from regulated markets and quality sensitive customers.

Strong network base: SIL created a long-standing market presence in India and across the globe with its premium quality products. The company's wholly owned foreign subsidiary, Sigachi U.S. Inc., is based in Virginia, USA, and assists the company in meeting the demands of their international customers. The company serves a wide range of customers, including end-users, merchants, distributors, and exporters. SIL supplies products to over 50 countries including Australia, the United States, South America, the United Kingdom, Poland, Italy, Denmark, China, Colombia and Bangladesh to name a few.

Comfortable leverage and coverage indicators: The capital structure of the company continues to remain satisfactory marked by overall gearing ratio at 0.25x as on March 31, 2023 (PY:0.15x) on account of increase in net worth from ₹226.46 crore as on March 31, 2022, to ₹265.56 crore as on March 31, 2023. The coverage ratio represented by PBILDT interest coverage deteriorated from 46x in FY22 to 14.58x in FY23 mainly on account of stronger increase in interest expenditure on account of lease liability. TDGCA also remained satisfactory at 0.83x. Furthermore, the coverage ratio is expected to be remain comfortable in medium term backed by heathy accruals and comfortable net worth position.

Favourable industry outlook: The MCC market size in India is projected to reach USD 93 million by CY25, registering a CAGR of 13.84% from CY21 to CY 25. The growth of the MCC market is primarily triggered by the increasing demand for processed food and growing production of pharmaceutical, cosmetics and personal care products. In line with the global trend, pharmaceutical will be major growth segment followed by food & beverages and cosmetic for the MCC market in India. MCC is an important ingredient in the food, pharmaceutical, and cosmetics sectors, as well as to boost MCC's growth in the pharmaceutical segment, rendering the industry the fastest-growing end-use of MCC. Increasing research and development effort, global investments, and various formulations have positioned the pharmaceutical industry as the top end-user of MCC, with newer formulations driving market growth.

Key weaknesses

Moderate albeit increasing scale of operations: The total operating income of the company although improved by 17.87% in FY23 continues to remain moderate at ₹297 crore (PY ₹251.96 crore). The capacity utilisation was more than 90% in all the three units and therefore the revenue is likely to remain range bound. However, with the capacity enhancement at Dhaej and Jhagadia revenue is expected to improve, in coming quarters. The company derives 75% of the revenue from pharma segment followed by nutraceuticals, food and beverage 10% each and remaining from cosmetics. Although the scale remained modest, the profitability margins of the company continue to remain healthy with PBILDT and PAT margin of 21% and 13% (PY 15%) respectively in FY23.

Elongated operating cycle: The operating cycle of the company remained moderately elongated at 100 days (PY:102 days) during FY22. For smooth flow of operations, the company maintains an average inventory level of around 2-3 months to meet the customer requirement in timely manner. Raw material being largely imported, the company needs to maintain sufficient stock at all times. The average collection period increased from 68 days in FY21 to 82 days in FY22 on account of significant increase in sales in the last quarter. Given the nature of business, the operating cycle is likely to remain a tad stretched.

Project execution risk: The company is exposed to risk associated with execution and stabilisation of the project that it has undertaken at Dahej and Jhagadia. As of June 30, 2023, the company has completed the said expansion project and is expecting to commence commercial operation from November 2023. Capex amounting to arounf ₹32 Crore w.r.t the project to manufacture CCS, however, is yet to begin. The company is expecting an incremental revenue of around 10-15% from the said expansion. Ability of the company to successfully commence operations and derive envisaged benefits from the said capex remains critical from rating perspective.

Dependent on import market for procurement of raw material: Although SIL has established relationships with its key suppliers which enables it 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 and eucalyptus in the domestic market. The company imports wood pulp from Hong Kong, Switzerland, USA, Germany, Canada etc. The company purchases 70% of raw material through annual contract pricing along with fixed delivery schedules and the remaining 30% would be purchased based on pricing opportunities. Besides this, the company also avails discounts on bulk purchases, and they have long standing relationship with its suppliers. Furthermore, any increase in raw material price would be passed on to its customers. The profitability margins are also exposed to foreign exchange fluctuation risks in the absence of any formal hedging policy. The company, however, enjoys a natural hedge as it imports 100% of raw material and has more than 70% of revenue from export market.

Liquidity: Adequate

The liquidity position of the company is adequate marked by healthy gross cash accruals of ₹41.99 crore during FY22 as against term debt obligation of around ₹0.57 crore. This apart, the company has free cash and bank balance of ₹ 46.77 crore as on March 31, 2023 (₹68.63 crore as on March 31, 2022). Furthermore, the company sparingly utilizes its working capital limits and average utilization remained low at 34% during the last 12 months ended November 30, 2022. The capex requirement will be funded through internal accruals with very less reliance on bank borrowings. The current ratio of the company remained comfortable at 4.21x as on March 31, 2022.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

Policy on default recognition
Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Financials ratios- non-Financials sector entities
Liquidity Analysis of Non- financial sector entities
Short term instruments
Manufacturing

About the company and industry

Industry classification

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

Telangana-based, SIL 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 (MCC). 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, to meet the rising industry demand for MCC. However, the aforementioned companies amalgamated with Sigachi in 2014. Furthermore, in December 2019, the company was converted from a private limited company to a public limited company (equity is listed on BSE) and consequently the name of the company was changed to 'Sigachi Industries Limited'. The company is engaged in manufacturing of MCC, which is widely used in pharmaceutical, food, beverage, cosmetic and paint industry. The most common uses of MCC are in vitamin supplements and tablets. It also acts as a bulking agent in food production. MCC is produced from refined wood pulp which is imported by the company.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	251.97	297.00	79.46
PBILDT	52.96	62.49	16.83
PAT	38.03	41.56	10.13
Overall gearing (times)	0.15	0.25	-1
Interest coverage (times)	45.85	14.58	13.25

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

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: 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 - LT-Cash Credit		-	-	-	12.00	CARE A- (RWD)
Fund-based - LT-Term Loan		-	-	May 2028	0.10	CARE A- (RWD)
Fund-based - LT-Term Loan		-	-	May 2025	1.83	CARE A- (RWD)
Fund-based - LT/ ST-EPC/PSC		-	-	-	13.35	CARE A- / CARE A2 (RWD)
Non-fund-based - LT/ ST-BG/LC		-	-	-	8.75	CARE A- / CARE A2 (RWD)

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 - LT-Cash Credit	LT	12.00	CARE A- (RWD)	-	1)CARE A-; Stable (04-Jan-23)	1)CARE A-; Stable (23-Feb-22)	1)CARE BBB; Positive (12-Mar-21)
2	Fund-based - LT-Term Loan	LT	0.10	CARE A- (RWD)	-	1)CARE A-; Stable (04-Jan-23)	1)CARE A-; Stable (23-Feb-22)	1)CARE BBB; Positive (12-Mar-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	8.75	CARE A- / CARE A2 (RWD)	-	1)CARE A-; Stable / CARE A2 (04-Jan-23)	1)CARE A-; Stable / CARE A2 (23-Feb-22)	1)CARE A3+ (12-Mar-21)
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	1)Withdrawn (23-Feb-22)	1)CARE BBB; Positive (12-Mar-21)
5	Fund-based - LT/ ST-EPC/PSC	LT/ST*	13.35	CARE A- / CARE A2 (RWD)	-	1)CARE A-; Stable / CARE A2 (04-Jan-23)	1)CARE A-; Stable / CARE A2 (23-Feb-22)	1)CARE BBB; Positive (12-Mar-21)
6	Fund-based - LT-FBN / FBP	LT	-	-	-	-	1)Withdrawn (23-Feb-22)	1)CARE BBB; Positive (12-Mar-21)
7	Fund-based - LT-Term Loan	LT	1.83	CARE A- (RWD)	-	1)CARE A-; Stable (04-Jan-23)	1)CARE A-; Stable (23-Feb-22)	1)CARE BBB; Positive (12-Mar-21)

*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 - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

3	Fund-based - LT/ ST-EPC/PSC	Simple
4	Non-fund-based - LT/ ST-BG/LC	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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