

Sigachi Industries Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	13.40 (Reduced from 13.93)	CARE A-; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long-term / Short-term bank facilities	22.63 (Enhanced from 22.10)	CARE A-; Stable / CARE A2	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings of Sigachi Industries Limited (SIL) were earlier placed on rating watch with developing implications following the announcement of acquisition of 80% stake in Trimax Bio Sciences Private limited (Trimax) for a consideration of ₹100 crore. Furthermore, SIL's board had approved allotment of convertible warrants through which the company was expected to raise around ₹286 crore. During Q3FY24, the company raised funds through the said warrants and acquired 80% stake in Trimax. SIL bought stake in Trimax to expand and diversify its operation through entering Active Pharmaceuticals Ingredients (API) manufacturing space. Trimax has a USFDA-approved facility with a strong established customer base. Ability of SIL to derive benefits from the technical capabilities of Trimax's existing key management team coupled with marketing strength of SIL remains a key monitorable.

The ratings continues to derive strength from experienced promoters with a qualified management team, long proven track record of business, moderate albeit growing scale of operation with healthy profitability margins of around 20% and strong financial risk profile with absence of any major bank borrowings, strong and diverse clientele and stable industry outlook.

The ratings strengths are however partially offset by high dependence on import for raw material, profitability margins being susceptible to fluctuations in raw material prices, project execution and stabilisation risk and elongated operating cycle.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Steady growth in total operating income (TOI) with profit before interest, lease rentals, depreciation and tax (PBILDT) margin of above 20% along with maintaining strong return on capital employed (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: Consolidated

Considered the consolidated business and financial risk profiles of SIL and its subsidiaries (Refer Annexure - 6), as the entities are linked through a parent-subsidary relationship.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects that SIL will continue to grow its revenue from operations backed by healthy demand and increasing capacities while maintaining healthy profitability and strong financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Increase in scale of operations with stable profitability margins:

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

The total operating income of the company although improved by around 17% in FY23 continues to remain moderate at ₹293.72 crore from ₹251.27 crore in FY22. The capacity utilisation was more than 90% in all the three units. However, with the capacity enhancement at Dahej and Jhagadia, revenue is expected to improve from Q3-FY24 onwards. Pharma segment continues to be the major revenue generating source with around 75% of the revenue contribution. The company has maintained healthy profitability margins for FY23 and H1-FY24, with PBILDT margins at 20.16% and 19.55%, and PAT margins at 14.15% and 11.59% (FY22- PBILDT margin 20.80% and PAT margin 15.13%), respectively. Deterioration in profitability margins is attributable to significant increase in employee cost. However, with expansion of current facilities and acquisition of Trimax Bio Science Pvt limited, the PBILDT margin is expected to be around 20% going forward.

Satisfactory financial risk profile:

The capital structure of the company continues to remain satisfactory marked by overall gearing ratio at 0.26x as on March 31, 2023 and 0.24x as on September 30, 2023. Increase in the net worth base of over ₹100 crore is on account of the issuance of convertible share warrants at a premium, for acquisition and expansion purposes. Despite being in an expansion phase, SIL's financial risk profile is expected to remain satisfactory, as the expansion is not funded through debt.

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 with considerable experience in the excipient industry. The company will benefit from the extensive experience of the 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 13,950 MTPA as on March 31, 2023 which is expected to increase to 21,000 MTPA post the completion of the expansion at Dahej and Jhagadia. 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).

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.

Key weaknesses**Elongated operating cycle:**

The operating cycle of the company remained moderately elongated at 121 days (PY:100 days) during FY23. To ensure operational efficiency, the company maintains an average inventory level of around two months, facilitating timely fulfillment of customer requirements. Given that the majority of raw materials are imported, maintaining sufficient stock is imperative. The increase in the operating cycle is attributed to an extension in receivables days, escalating from 82 days in FY22 to 101 days in FY23. This is on account of increase in sales towards the end of March 2023.

Dependent on import for 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.

Project execution risk:

The company is exposed to the risk associated with execution and stabilisation of the project that it has undertaken at Dahej and Jhagadia. The company has completed the said expansion project and is expecting to commence commercial operation within two months' time. Capex amounting to around ₹32 crore w.r.t the CCS facility at Dahej, however, is yet to begin. The company is awaiting environmental clearance for the same. Ability of the company to successfully commence operations and derive envisaged benefits from the said capex remains critical from rating perspective. Furthermore, in Q2-FY24, the company acquired Trimax Bio Science Private Limited, engaged in the manufacturing of APIs, utilizing funds raised from the issuance of convertible share warrants.

Liquidity: Adequate

The company is able to generate healthy accruals to service its interest obligations and operational requirement marked by GCA of ₹47.97 crore for FY23 and ₹23.64 crore for H1-FY24. Average working capital limit utilisation stands moderate at 63% for the 12 months ending September 2023. Liquidity is further supported by current ratio of 2.60x as on March 31, 2023 and cash and liquid investments of ₹107.59 crore as on September 30, 2023.

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](#)
- [Consolidation](#)

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 November 2021, 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)	H1-FY24 (UA)
Total operating income	251.27	293.72	159.73
PBILD	52.26	59.22	31.23
PAT	38.03	41.56	18.51
Overall gearing (times)	0.15	0.26	0.24
Interest coverage (times)	45.25	13.81	10.70

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

List of Subsidiaries: Annexure-6

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-; Stable
Fund-based - LT-Term loan		-	-	May 2028	0.10	CARE A-; Stable
Fund-based - LT-Term loan		-	-	May 2025	1.30	CARE A-; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	13.88	CARE A-; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC		-	-	-	8.75	CARE A-; Stable / CARE A2

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-; Stable	1)CARE A-(RWD) (22-Aug-23)	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-; Stable	1)CARE A- (RWD) (22-Aug-23)	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-; Stable / CARE A2	1)CARE A- / CARE A2 (RWD) (22-Aug-23)	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*	13.88	CARE A-; Stable / CARE A2	1)CARE A- / CARE A2 (RWD) (22-Aug-23)	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	1.30	CARE A-; Stable	1)CARE A- (RWD) (22-Aug-23)	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](#)

Annexure-6: List of Subsidiaries

Sr. No.	Company Name	Stake held by SIL
1	Sigachi US, Inc	100%
2	Sigachi MENA FZCO	100%
3	Trimax Bio Sciences Private Limited	80%

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.

Contact us

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About us:

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