A .R. Stanchem Private Limited

December 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	55.00	CARE A; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the rating, CARE Ratings Limited (CARE Ratings) has taken a combined view of the operational and financial profiles of A.R. Stanchem Private Limited (ARSPL), Sai Fertilizers Private Limited (SFPL) and Sai Sulphonates Private Limited (SSPL), due to the managerial, operational, and financial linkages between the three entities.

Reaffirmation in the rating assigned to bank facilities of A.R. Stanchem Private Limited (ARSPL) continue to derive strength from promoter's experience and the group's long track record of operations, strong presence in the eastern India surfactant market, integrated operations, association with reputed client base including leading consumer of surfactants despite marked with client concentration, satisfactory capital structure, satisfactory operating cycle and strong liquidity position.

However, ratings are partially offset by product concentration risk, exposure to raw material price volatility and forex fluctuation risk and limited bargaining power against large suppliers and consumers. Ratings also take note of moderation in scale of operations in FY24 attributed to decline in average sales realisation and sales volume of Linear Alkyl Benzene Sulphonic Acid (LABSA) and overall subdued demand from user industries. The group's profitability margins also moderated considering inventory losses incurred from falling LAB prices, temporary reduction in conversion charges from key customers and reduced margins in the fertilizer segment. However, the company's financial performance improved in H1FY25 with improved total operating income (TOI) and margins, given the improving demand for the product and stable raw material and final product prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations marked by TOI of above ₹2700 crore on a combined basis and improving profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 7% on a sustained basis.

Negative factors

- Declining TOI below ₹1500 crore and moderating PBILDT margin below 3% on a sustained basis.
- Deterioration in net gearing above 0.10x and/or net debt/PBILDT above 1.25x on a sustained basis.

Analytical approach: Combined

For arriving at ratings, CARE Ratings has combined the risk profiles of Sai Sulphonates Private Limited (SSPL), A.R. Stanchem Private Limited (ARSPL) and Sai Fertilizers Private Limited (SFPL). The companies operate under common management and are involved in similar business, have operational synergies and exhibit cash flow fungibility.

Outlook: Stable

CARE Ratings believes the group is likely to benefit from extensive experience of the promoters and long track record of operations leading to stable revenues with likely improvement in operating margins, considering stable raw material prices.

Detailed description of key rating drivers:

Key strengths

Extensive experience of promoter's and the group's long track record of operations leading to strong presence in eastern India surfactant market

The chemical arm of the Fogla Group had been set up by Sandeep Fogla, son of Shyam Sundarji Fogla and Chairman of the group. The group has grown under his stewardship and with the growing scale and strengthening of its relationship with leading producer of detergents, the group has become a leading supplier of surfactant LABSA in eastern India.

Integrated operations

LABSA is a synthetic surfactant manufactured with sulphur trioxide (for LABSA 96%)/ sulphuric acid (for LABSA 90%) and LAB as raw materials. Initially, the group purchased sulphuric acid but to ensure a steady supply of LABSA to its clients, including a major FMCG player, they established a sulphuric acid manufacturing facility in Kharagpur in 2009. The steam produced in sulphuric acid production is used to generate electricity, powering the entire SSPL and SFPL operations with a six MW power plant, resulting in significant power cost savings. In the production of LABSA 90%, diluted sulphuric acid is released as a by-product. To utilise this

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

by-product, the group has undertaken forward integration by manufacturing the fertiliser SSP, which uses diluted sulphuric acid as one of its raw materials.

Association with reputed client base including leading consumer of surfactants despite marked with client concentration

The group's major revenue comes from the sale of LABSA. LABSA is an anionic surfactant that finds its application in the detergent industry. The Fogla group caters the requirement of some leading FMCG manufacturers such as the Unilever Group including Hindustan Unilever Limited (HUL), Unilever Bangladesh and Unilever Nepal and Procter & Gamble (P&G) deriving ~40% and 30% of its direct and indirect sales, respectively.
Although this mitigates off-take risks but exposes the group to customer concentration which is further mitigated to a major extant through group's long-established relationship and repeated orders from its client.
Going forward, the group's healthy relationship with its clients is expected to help in achieving gradual volume growth.

Satisfactory capital structure

The group's capital structure continued to remain comfortable marked by the overall gearing ratio of 0.39x as on March 31, 2024, against 0.38x as on March 31, 2023. Net overall gearing improved and stood at 0.02x as on March 31, 2024, against 0.05x as on March 31, 2023.
Debt protection metrics like total debt to gross cash accrual (TD/GCA) moderated in FY24 to 7.50x against 1.82x in FY23. The moderation is attributable to subdued operating margin in FY24 and consequent moderation in GCA.
Going forward, the group's capital structure is expected to remain at similar levels in the near-to-medium term in absence of debt funded capital expansion plans. However, with the expected improvement in margins, debt protection metrices are expected to improve in the near-to-medium term.

Satisfactory working capital cycle

As a substantial portion of the key raw material, LAB, is imported, where transit time is longer, a significant amount is parked as inventory or raw material in transit. In the case fertiliser business inventory days are high due to seasonality involved in agricultural production, where fertilisers are manufactured throughout the year but consumed only twice in rabi and kharif sowing seasons. Thus, the inventory period for the group remains high. However, a moderate collection period and high credit period availed from suppliers kept the operating cycle comfortable for the group. Overall, the group's working capital cycle is expected to remain range bound between 30-60 days and is expected to remain at similar levels going ahead.

Key weaknesses

Moderation in scale of operations and profitability in FY24 despite improvement in H1FY25

The group's TOI moderated to ₹1823.92 crore in FY24 from ₹2537.70 crore in FY23 considering decline in average sales realisation and sales volume of LABSA and overall subdued demand from user industries.
The combined PBILDT margin moderated by 332 bps to 1.50% in FY24 considering inventory losses incurred from falling LAB prices, temporary reduction in conversion charges from key customers and reduced margins in the fertiliser segment.
However, the group has managed to witness improvement in H1FY25 and reported TOI of ₹992.24 crore with PBILDT margin of 3.75% given the improving sales volumes and stable prices of raw materials and final products. Also, benefits under the Nutrient Based Subsidy (NBS) Scheme which was stopped in FY24 was restored on September 09, 2024, which is further expected to improve the group's financial performance going ahead.
Therefore, with the normalisation of conversion charges from HUL and P&G and anticipated stable raw material and freight cost, the group's financial performance is expected to improve in FY25 in terms of scale and profitability margins.
On standalone basis, ARSPL achieved TOI of ₹1365.77 crore and profit after tax PAT of ₹8.59 crore in FY24.

Exposure of profitability to raw material price and foreign exchange fluctuation risk

Raw materials comprise a substantial portion of the cost of sales. LAB is a principle raw material which is a crude derivative and is largely imported. The group's profitability can be impacted in open market sales due to fluctuating raw material prices. On an overall basis the group exports ~20% to 25% of its total sales, which acts as a natural hedge to some extent. However, in the absence of a formal hedging policy and the company being a net importer, the group's profitability is exposed to foreign exchange fluctuation risk. Therefore, sharp delta in input prices, in the absence of an almost similar delta in realisations, can significantly dent profitability.

Limited bargaining power against large suppliers and consumers

The group is the exclusive agent of one of the major LAB suppliers who have access to crude oil resources for supply of LAB in India. In addition, the group essentially caters large, organised detergent manufacturers with strong distribution channels. LABSA, being an intermediate, sees its margin being squeezed due to the strong bargaining power of suppliers and consumers.

Product concentration risk

Close to 75% sales of the group are marked by a single product-LABSA and the rest 25% is from the sale of fertilisers, sulphuric acid, and trading income leading to product concentration risk. CARE Ratings believes the group's heavy reliance on a single product makes it vulnerable to risks from changes in government regulations or increased competition, which could affect its profitability.

Liquidity: Strong

The group's liquidity position remained strong as evident from the average utilisation of its fund-based working capital limit at 25%, 10%, 0% for ARSPL, SFPL and SSPL, respectively, in the last 12 months ended August 31, 2024; supported by current ratio of above unity as on March 24. The group's operating cycle remained comfortable and stood at 56 days. The group had ₹56.96 crore of free cash and liquid investments as on March 31, 2024, and ₹53.89 crore as on September 30, 2024. The group had kept ₹108 crore as on March 31, 2024, and ₹117.60 crore as on September 30, 2024, with banks held as security against borrowings and bank guarantee. Further, the company earned GCA of ₹22.97 crore against nil debt repayment in FY24.
Going forward, the group's liquidity position is expected to remain strong marked by nil debt repayments obligations in FY25 and sustenance of healthy cash accruals and no major capex plan in pipeline

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Fertilizer
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals and petrochemicals	Commodity chemicals

The Fogla group is Kolkata-based and began its operations in 1968 with a manufacturing unit producing machine parts for jute/textile industries. The group has presence in the domestic and international market through its surfactant, fertilisers, and detergent business.

ARSPL, incorporated in 1994, manufactures and exports LABSA. It has an installed capacity of 70,000 metric tonne per annum (MTPA) for LABSA 90% in Kharagpur. For LABSA 96% it uses the processing facility of SSPL against processing charges. It also relies on SSPL for sulphuric acid used to manufacture LABSA 90%. ARSPL is also a sole dealer for Farabi Petrochemicals Company, Kingdom of Saudi Arabia for its LAB sales in India.

SFPL was incorporated in 1993 and manufactures fertilisers such as single super phosphate (SSP) and nitrogen phosphorus and potassium (NPK). It has an installed capacity of 132,000 MTPA for this in Kharagpur. Spent sulphuric acid (dilute sulphuric acid), a by-product released during sulphonating of LAB to LABSA 90% is used to produce SSP.

SSPL was incorporated in 1987 and is a part of the Fogla group that manufactures Linear Alkyl Benzene Sulphonic Acid (LABSA) such as LABSA 90% and LABSA 96%, which is a synthetic surfactant used in manufacturing laundry and home care products including soaps and detergents. As a backward integration it also manufactures sulphuric acid for sulphonating of Linear Alkyl Benzene (LAB) to LABSA. It has a plant in Kharagpur, West Bengal with a capacity of 75,000 MTPA for LABSA 90%, 80,000 MTPA for LABSA 96% and 250,000 MTPA for production of sulphuric acid. SSPL also has a 6 MW waste heat regeneration power plant for captive consumption of power.

Combined financials of ARSPL, SFPL and SSPL

Brief Financials (₹ crore)	March 31, 2023 (UA, C)	March 31, 2024 (UA, C)	H1FY25 (UA, C)
Total operating income	2537.70	1823.92	992.24
PBILDT	122.26	27.27	37.23
PAT	81.98	12.63	NA
Overall gearing (times)	0.38	0.39	NA
Interest coverage (times)	14.25	2.95	NA

UA: Unaudited, C: Combined, NA: Not Available; Note: these are latest available financial results

Standalone financials of ARSPL

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	749.97	734.83	513.80
PBILDT	11.77	-0.50	8.57
PAT	7.51	0.57	NA
Overall gearing (times)	0.64	0.99	NA
Interest coverage (times)	4.09	-0.18	NA

A: Audited, UA: Unaudited, NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	55.00	CARE A; Stable / CARE A1

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 2024-2025	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
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	55.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (07-Feb-24)	1)CARE A; Stable / CARE A1 (06-Jan-23)	1)CARE A; Stable / CARE A1 (25-Feb-22)

LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instrument/facilities- Not applicable

Annexure 4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Annexure 5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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