Sigachi Industries Limited

January 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	75.38 (Enhanced from 13.40)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	51.75 (Enhanced from 22.63)	CARE A-; Stable / CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Sigachi Industries Limited (SIL) factors in the improved scale of operations, with a growth rate of over 30% y-o-y at consolidated level in FY24 [Audited, FY refers to April 01 to March 31], and healthy operating profitability marked by a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 20.7%. The growth is attributable to increased demand for Microcrystalline Cellulose (MCC) and revenue contribution from its subsidiary, Trimax Bio Sciences Private Limited (Trimax), a manufacturer of APIs and intermediates, in which SIL acquired an 80% stake for ₹100 crore using proceeds from convertible share warrants. Ratings continue to derive strength from experienced promoters with a qualified management team, long proven track record of business, favourable location of the facilities, comfortable financial risk profile, adequate liquidity, and stable industry outlook. The financial risk profile is expected to strengthen further with the proposed prepayment of the term loan from the pending proceeds of convertible share warrants by the end of FY25.

However, ratings strengths are partially offset by high dependence on import for raw material, losses incurred in Trimax, and the risks associated with project execution and stabilisation at both the entities - SIL and Trimax.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Steady growth in total operating income (TOI) with PBILDT margin of above 20% and maintaining strong return on capital employed (ROCE) ratio.
- the company's ability to complete the project without time and cost overrun and generate revenue as envisaged.

Negative factors

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

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered the consolidated business and financial risk profiles of SIL and its subsidiaries (refer to Annexure - 6), as the entities are linked through a parent-subsidiary relationship.

Outlook: Stable

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 key rating drivers:

Key strengths

Improved financial performance in FY24

Consolidated revenue from operations of SIL increased by 33% y-o-y to ₹406.80 crore in FY24 (PY: ₹305.45 crore), driven by a 16% growth in MCC revenue to ₹301.5 crore (PY: ₹260.26 crore), primarily due to sales volume growth. The acquisition of Trimax in FY24 also contributed to the overall revenue. Operating profitability improved marginally in FY24, with a PBILDT margin of 20.77% (PY: 20.34%). At a standalone level, SIL reported a TOI of ₹325.19 crore and a PBILDT margin of 20.60% for FY24. For H1-FY25, consolidated revenue stood at ₹220.62 crore, with the PBILDT margin moderating to 17.34%, mainly due to higher fixed costs from the 7,200 MTPA capacity expansion in FY24, which became operational towards the end of Q2-FY25. CARE

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

Ratings observes, going forward, improvement in capacity utilisation, supported by increased demand for MCC, is expected to enhance revenue and profitability.

Comfortable financial risk profile despite moderation in FY24
The company's financial risk profile remains comfortable, with an overall gearing of 0.39x as on March 31, 2024 and 0.40x as on September 30, 2024 (PYE: 0.26x). The increase in debt levels is primarily due to higher working capital borrowings, driven by the growth in scale, and a term loan availed for capacity expansion. The term loan was availed as there was a delay in receiving the balance funds from investors for the convertible share warrants. However, the company proposes to fully repay the term loan by the end of FY25 using the pending proceeds of the convertible share warrants.

Proven track record, vast experience of promoters, and qualified management team
Founded in 1989 by Rabindra Prasad Sinha, SIL is led by a team of professionals with extensive industry experience. Rabindra Prasad Sinha, Founder and Chairperson, brings over three decades of expertise in the cellulose and fine chemicals industry and has been pivotal in establishing Sigachi US Inc. and expanding export operations. Co-Founder and Whole-Time Director, S. Chidambarnathan, with over five decades of experience, has significantly contributed to the company's domestic growth and the establishment of manufacturing facilities in Gujarat. The Managing Director and CEO, Amit Raj Sinha, an MBA graduate from the Indian School of Business, has over 20 years of experience in the pharma and fine chemicals sectors and has strengthened the R&D division. The leadership is supported by a professional management team with extensive experience in the excipient industry and related sectors, driving the company's operational growth and diversification.

Favourable location of the facilities
Sigachi operates three manufacturing units in Jhagadia, Dahej, and Hyderabad, with a combined installed capacity of 21,700 MTPA including 7,200 MTPA capacity expansion in FY24. Trimax operates a facility with an installed capacity of 100 KL, in Raichur, Karnataka. All three units hold Approved Certificates of Suitability (CEP) for Microcrystalline Cellulose from the European Directorate of Quality and Medicine (EDQM). The facilities are equipped with advanced systems and comply with United States Food and Drug Association (USFDA) and World Health Organization Good Manufacturing Practice (WHO-GMP) norms. Additionally, they are certified with Hazard Analysis Critical Control Point (HACCP) and ISO 9001:2015.

Stable industry outlook
The global microcrystalline cellulose market is projected to experience substantial growth driven by the increasing demand for MCC across a wide range of industries, including pharmaceuticals, food and beverages, cosmetics, and personal care. Its versatile applications, such as a binder, stabiliser, and texturizer, alongside its growing preference for its natural, non-toxic properties, are key factors contributing to the market's expansion. To meet the escalating global demand, particularly from American and European regions, key stakeholders in the Indian MCC market are strengthening their production capacities. This is expected to propel the growth of Indian MCC market at a compounded annual growth rate (CAGR) of 8% in the upcoming years.

Key weaknesses

Project execution and stabilisation risk
In FY24, SIL acquired an 80% stake in Trimax, a company engaged in manufacturing APIs and intermediates, primarily catering to domestic and less-regulated markets, with a significant portion of revenue derived from intermediates. The facility operates at lower capacity, and the presence of fixed overheads has contributed to its losses. Trimax is transitioning from intermediates to APIs to target regulated markets, with four CEPs filed for approval. SIL plans to enhance Trimax's capacity by 150 KL, increasing the total capacity to 250 KL by January 2026. The company anticipates synergies from its common clientele for APIs and pre-formulated excipients upon supplying APIs to regulated markets.

SIL plans to set up a Cross Carmellose Sodium (CCS) facility at Dahej with a proposed installed capacity of 1,800 MTPA. However, there has been a delay in obtaining the environmental clearance, and the company now expects to commence operations in FY26. However, the timely receipt of CEP approvals, execution of the projects, an increase in revenue through improved capacity utilisation, and a turnaround in Trimax's financial performance will remain key monitorable.

Dependence on import of raw materials
Sigachi has established relationships with key suppliers, enabling competitive procurement of raw materials. However, the company relies on a concentrated supplier base, importing nearly 100% of its raw materials due to the unavailability of refined wood pulp in the domestic market. The company sources wood pulp from countries such as Switzerland, USA, Canada, and South Africa. Around 70% of raw materials are procured through annual contracts with fixed pricing, while the balance 30% is purchased based on market pricing opportunities. In the event of increase in RM prices, the company procures under the contracts at the agreed prices, and in case of decline in prices, it procures from the open market, hedging its risk. Profitability margins are subject to foreign exchange fluctuation risks, as the company does not have a formal hedging policy. However, a natural hedge exists due to the alignment of 100% imported raw materials with over 70% of revenue generated from exports.

Liquidity: Adequate
Company is able to generate adequate cashflows marked by gross cash accruals (GCA) of ₹67.80 crore for FY24 and ₹40.14 crore for H1-FY25 against term debt obligation of ₹4.86 crore for FY25. The company proposes to fully repay the term loan by the end

of FY25 using the proceeds of the convertible share warrants. Reliance on bank borrowings for working capital remains moderate, with average working capital limit utilisation at 46% and buyer's credit utilisation at 69% for the 12 months ending November 2024. Liquidity is further supported by free cash and cash equivalents of ₹71.50 crore and a current ratio of 1.73x as of March 31, 2024.

Assumptions/Covenants - Not applicable

Environment, social, and governance (ESG) risks

Parameters	Risk factors
Environmental	The company is working on initiatives to significantly reduce the company's greenhouse gas (GHG) emissions. It plans to reduce Energy Consumption Intensity by 20% and coal consumption intensity by 30% by 2032 considering baseline year as 2021.
Social	Company has undertaken CSR activities towards eradicating hunger, poverty, and malnutrition, promoting education and promoting gender equality.
Governance	Complies with corporate governance provisions as specified in SEBI (LODR) regulations.

Applicable criteria

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

About the company and industry

Industry classification

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

Telangana-based SIL was originally incorporated as 'Sigachi Chlorochemicals Private Limited' in 1989, with an objective to manufacture chlorinated paraffin. In 1990s, the company decided to diversify its business activities to manufacture MCC. Subsequently, in March 2012, the name of the company was changed to 'Sigachi Industries Private Limited '. In 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. 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 was changed to 'Sigachi Industries Limited'. The company manufactures MCC in 60 distinct grades ranging from 15 microns to 250 microns. Sigachi caters its products to industries, including pharmaceutical, food, nutraceutical, and cosmetic sectors. In Q4-FY24, the company enhanced its total installed capacity by 7,200 MTPA, reaching an overall capacity of 21,700 MTPA.

SIL-Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1-FY25 (UA)
Total operating income	305.45	406.80	220.62
PBILDT	62.13	84.49	38.25
PAT	43.54	56.58	33.77
Overall gearing (times)	0.26	0.39	0.40
Interest coverage (times)	14.47	10.88	7.27

A: Audited, UA: Unaudited. Note: these are latest available financial results

SIL- Standalone

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1-FY25 (UA)
Total operating income	293.72	325.19	189.22
PBILDT	59.22	66.98	34.38
PAT	41.56	40.80	31.01
Overall gearing (times)	0.26	0.33	0.32
Interest coverage (times)	13.81	9.54	7.64

A: Audited, UA: Unaudited. 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
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	May 2025	0.43	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	February 2029	39.95	CARE A-; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	43.00	CARE A-; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC		-	-	-	8.75	CARE A-; Stable / CARE A2

Annexure-2: Rating history for 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	Fund-based - LT-Cash Credit	LT	35.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Jan-24) 2)CARE A- (RWD) (22-Aug-23)	1)CARE A-; Stable (04-Jan-23)	1)CARE A-; Stable (23-Feb-22)
2	Fund-based - LT-Term Loan	LT	0.43	CARE A-; Stable	-	1)CARE A-; Stable (05-Jan-24) 2)CARE A- (RWD) (22-Aug-23)	1)CARE A-; Stable (04-Jan-23)	1)CARE A-; Stable (23-Feb-22)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	8.75	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (05-Jan-24) 2)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)
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	-	1)Withdrawn (23-Feb-22)
5	Fund-based - LT/ ST-EPC/PSC	LT/ST	43.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (05-Jan-24) 2)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)
6	Fund-based - LT-FBN / FBP	LT	-	-	-	-	-	1)Withdrawn (23-Feb-22)
7	Fund-based - LT-Term Loan	LT	39.95	CARE A-; Stable	-	1)CARE A-; Stable	1)CARE A-; Stable	1)CARE A-; Stable (23-Feb-22)

						(05-Jan-24) 2)CARE A- (RWD) (22-Aug-23)	(04-Jan-23)	

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Sigachi US, Inc	Full	Wholly owned subsidiary
2	Sigachi MENA FZCO	Full	Wholly owned subsidiary
3	Trimax Bio Sciences Private Limited	Full	80% stake held by SIL

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:
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