

Sigachi Industries Limited

February 23, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	13.93 (Reduced from 14.28)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB; Positive (Triple B; Outlook: Positive)
Long Term / Short Term Bank Facilities	8.75 (Enhanced from 8.00)	CARE A-; Stable / CARE A2 (Single A Minus ; Outlook: Stable/ A Two)	Revised from CARE A3+ (A Three Plus)
Long Term / Short Term Bank Facilities	13.35 (Enhanced from 8.00)	CARE A-; Stable / CARE A2 (Single A Minus ; Outlook: Stable/ A Two)	Revised from CARE BBB; Positive (Triple B; Outlook: Positive)
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	36.03 (Rs. Thirty-Six Crore and Three Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Sigachi Industries Limited (Sigachi) is driven by successful completion of its initial public offer (IPO) during November 2021. The company had raised Rs 125 crore from the IPO and the proceeds are envisaged to be used towards capacity expansion at its two existing units in Gujarat along with setting up a new unit at Kurnool, Andhra Pradesh. The ratings further draw strength from rich experience of promoters supported by a team of professional technocrats, locational advantage, globally complaint manufacturing standards, established customer base, satisfactory profitability margins during FY21 (FY refers April 01 to March 31) and comfortable financial risk profile. The rating strengths are, however, partially offset by modest scale of operations, project execution risk and raw material price volatility risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operation by more than Rs 400 crore while maintaining PBILDT margin above 20% on a sustained basis.
- Successful completion of the project without any cost and time overrun and deriving envisaged revenue and profits from the same.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Overall gearing deteriorating to above 1x. going forward.
- Any significant decline in TOI or profits by more than 20% y-o-y, going forward

Detailed description of the key rating drivers

Key Rating Strengths

Successful completion of IPO

The IPO of Sigachi Industries Limited was open for subscription from Nov. 01, 2021 to Nov 03, 2021. The company mobilised Rs 125 crore. The proceeds from the issue will be used for expansion of production facilities of Micro Crystalline Cellulose (MCC) at Dahej and Jhagadia in Gujarat along with setting up a new unit at Kurnool. The entire said capex will be equity funded and company will not raise any additional debt for the same.

Rich experience of promoters supported by professional management team

Sigachi has been promoted by Mr. Rabindra Prasad Sinha, Mr. S. Chidambarnathan and Mr. Amit Raj Sinha. Mr. Rabindra Prasad Sinha and S. Chidambarnathan, are the whole-time directors and have been associated with the company since inception. They are the founding members and are actively involved in the strategic decision making for Sigachi, pertaining to corporate and administrative affairs, financial operations, expansion activities, business development and management of overall business. Mr. Rabindra Prasad Sinha has more than three decades of experience in the chemical industry. He has been instrumental role in setting up of the wholly owned subsidiary, Sigachi US Inc. and in expansion of export operations. Mr. S. Chidambarnathan has an experience of more than five decades in the field of variety of chemicals and derivatives of cellulose. He has been instrumental 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 Sigachi. The top management is supported by an experienced and professional

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

management team with considerable experience in the excipient industry. The team consists of well qualified and experienced personnel in the diversified industries to which Sigachi caters and has been responsible for the growth of the operations.

Location advantage

With a view to strategically expand operations and ensure market presence in domestic and international markets, Sigachi has set up three multi locational manufacturing units in Jhagadia, Dahej (Gujarat) and Hyderabad (Telangana) which helps the company provide timely, efficient and customized delivery of products in terms with the specific demographic needs. With three units located across Gujarat and Telangana, Sigachi has an aggregate installed capacity of 13128 MTPA as on March 31, 2021.

The production facility at Dahej- Special Economic Zone, with next door 'Dahej Port', gives an added advantages in terms of tax benefits, reduced transportation costs and faster turn-around of raw material to finished goods. Dahej unit contributed 39% of total revenue during FY21.

Globally compliant manufacturing standards

Over the years, to compete and match the standards of its international and domestic contenders, the company has invested in business strengthening by attaining certifications from renowned international bodies for good manufacturing practices and efficient process techniques. Sigachi has received various certifications for the manufacturing process, management systems and the raw materials used during the manufacture of the products. The facilities house equipment and systems and comply with the norms of USFDA (United States Food and Drug Association) and WHO-GMP (World Health Organization Good Manufacturing Practice).

Established customer base and diverse MCC product portfolio

The company has been associated with clients in the industry for more than two decades on an average. The top 10 customers contributed 55% of the total sales during FY21 (PY-46%). Supported by its long-term relationship and high customer satisfaction, the company has witnessed repeat orders from majority of its customers.

Sigachi has been one of the early participants in the MCC industry in India, which gave the company an edge to comprehensively understand the industry requirements. The company manufactures more than 60 grades of MCC ranging from 15 microns to 250 microns having varied applications. MCC is widely used as an excipient for finished dosages in the pharmaceutical industry, as a stabilizer, anti-caking agent, fat substitute and emulsifier in food industry and as a fat substitute, thickener, and binder in cosmetics.

Favourable capital structure and comfortable debt coverage indicators

The capital structure of the company continues to remain comfortable marked by overall gearing ratio at 0.23x as on March 31, 2021 (PY:0.49x). As on March 31, 2021 the total debt of the company was Rs. 20.78 crore which comprise term loan of Rs.2.61 crore and working capital facility of Rs.18.16 crore as against a tangible net worth of Rs.94.57 crore. The TNW and gearing has further significantly strengthened to ~Rs 227 crore and 0.06x respectively as on Dec 31, 2021 backed by IPO proceeds. The capital structure is expected to remain strong going forward. The debt coverage indicators of the company also remained satisfactory marked by improvement in total debt/GCA from 1.44x in FY20 to 0.66x in FY21 with increase in cash accruals from Rs.22.54 crore in FY20 to Rs.32.86 crore in FY21. Considering the low debt levels with reduction in interest cost the PBILDT interest coverage ratio improved from 13.55x in FY20 to 35.02x in FY21.

Industry outlook

Microcrystalline Cellulose Market size is forecast to reach USD 1.4 billion by CY 2025, growing at a CAGR of 7.25% during CY 2020-2025. The growth of the microcrystalline cellulose market is mainly driven by the rising demand for packaged food and the growing production of pharmaceutical and cosmetic and personal care products. It is used as a substitute for unhealthy fat and adds texture to baked food products. The product contains a significant amount of fibers that helps to enhance digestion, it also acts as an outstanding nutrient source to a variety of nutrients. Rapidly growing population, increasing obesity diseases and shifting consumer expectations of healthy food would drive product consumption. The pharmaceutical application to account for a significant share of the MCC market, in terms of value and volume, during the forecast period. The global pharmaceuticals market is expected to grow from USD 1228.45 billion in CY 2020 to USD 1250.24 billion in CY 2021 at an annual growth rate of 1.8%. The steadily growing pharmaceutical industry is expected to support the market growth of microcrystalline cellulose over the forecast period. Among end-use industries, pharmaceutical segment accounted for a dominant share in the market, owing to high use of microcrystalline cellulose in pharmaceutical.

Liquidity: Strong

Liquidity is marked by strong accruals against negligible repayment obligations and liquid investments to the tune of Rs.17.76 crore. Majority of the borrowings remain short term in nature for WC requirements. With a gearing of 0.23 times as of March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt if required, however company does not envisaged to raise any debt for its capex and utilising IPO proceeds for its ongoing capex. Its unutilized bank lines on an average are around 45% which remain ample to meet its incremental working capital needs over the next one year.

Key Rating Weaknesses

Project implementation risk

The company has undertaken project for expansion of existing units (Dahej and Jhagadia) and setting up a new unit at Kurnool with a total project cost of around Rs 90 crore being funded through IPO proceeds. As on December 31, 2021, the company

has incurred total cost of Rs.12 crore towards this capex and the commercial production expected to start in CY2023. The company is projecting to increase the installed capacity by 20,000 MTPA. Although the capex is not debt funded but timely completion of the project and ability of the company to derive envisaged benefits from the same remains critical from rating perspective.

Modest scale of operations albeit healthy profitability margins

The scale of operations of the company continues to remained modest and range bound. The TOI grew from Rs. 143 crore in FY20 to Rs. 191 crore in FY21 representing a growth of 33% at the back of increase in sales and improvement in average sales realisations for company's key products. Even though the TOI of the company remains moderate the PBILDT margin of the company remains healthy at 21.23% in FY21 (FY20: 20.59%) mainly due to the presence of high value-added products in the revenue mix and efficient operating capabilities. The company booked a TOI of Rs 179.43 crore in 9MFY22 which is about 95% of the TOI achieved during FY21.

Susceptibility in profit margins due to volatility in prices of raw material

Sigachi has established relationships with its key suppliers which enables the company to procure its raw materials at competitive prices. Conversely, the company faces concentration of suppliers and procures its entire raw material from overseas owing to the unavailability of standard refined wood pulp in the domestic market. The principal raw material used in manufacturing micro crystalline cellulose is refined wood pulp which is imported from Hong Kong, USA, Switzerland, Canada etc. Sigachi is dependent on a few suppliers for raw materials. The top five suppliers accounted for 66% of the total purchase of in FY21 (75% in FY20). Availability and price of the raw materials is subject to a number of external parameters such as economic factors, seasonality environmental factors and changes in government policies and regulations, including those relating to the excipient industry in general. In addition to the fluctuations in raw material prices, the volatility in foreign exchange rates invariably influences the profit margins of Sigachi owing to its substantial export sales and raw material imports. Nevertheless, the foreign exchange earnings are higher than foreign exchange expenses thereby providing natural hedging.

Analytical approach: Standalone

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

Hyderabad based, Sigachi Industries Limited 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. 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. Further, in December 2019, the company was converted from a private limited company to a public limited company and consequently the name of the company was changed to 'Sigachi Industries Limited'. The company is engaged in manufacturing of Micro Crystalline Cellulose (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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(Prov.)
Total operating income	143.71	191.20	179.43
PBILDT	29.59	40.59	38.09
PAT	20.42	29.06	27.60
Overall gearing (times)	0.49	0.23	0.06
Interest coverage (times)	13.56	35.02	56.01

A: Audited; Prov: Provisional

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	June 2021 [^]	0.10	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	8.75	CARE A-; Stable / CARE A2
Non-fund-based - LT-Bank Guarantee		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-EPC/PSC		-	-	-	13.35	CARE A-; Stable / CARE A2
Fund-based - LT-FBN / FBP		-	-	-	0.00	Withdrawn*
Fund-based - LT-Term Loan		-	-	May 2025	1.83	CARE A-; Stable

* interchangeable limit with LC as per revised sanction letter,

[^] awaited no dues certificate from the lender for withdrawing the TL rating however, the TL has been repaid basis interaction with the banker.

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	12.00	CARE A-; Stable	-	1)CARE BBB; Positive (12-Mar-21)	1)CARE BBB; Stable (17-Dec-19)	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)
2	Fund-based - LT-Term Loan	LT	0.10	CARE A-; Stable	-	1)CARE BBB; Positive (12-Mar-21)	1)CARE BBB; Stable (17-Dec-19)	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	8.75	CARE A-; Stable / CARE A2	-	1)CARE A3+ (12-Mar-21)	1)CARE A3+ (17-Dec-19)	1)CARE A3 (06-Sep-18) 2)CARE A3 (06-Sep-18)
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	1)CARE BBB; Positive (12-Mar-21)	1)CARE BBB; Stable (17-Dec-19)	1)CARE A3 (06-Sep-18) 2)CARE A3 (06-Sep-18)
5	Fund-based - LT/ ST-EPC/PSC	LT/ST*	13.35	CARE A-; Stable / CARE A2	-	1)CARE BBB; Positive (12-Mar-21)	1)CARE BBB; Stable (17-Dec-19)	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)
6	Fund-based - LT-FBN / FBP	LT	-	-	-	1)CARE BBB; Positive (12-Mar-21)	1)CARE BBB; Stable (17-Dec-19)	-
7	Fund-based - LT-Term Loan	LT	1.83	CARE A-; Stable	-	1)CARE BBB; Positive (12-Mar-21)	1)CARE BBB; Stable (17-Dec-19)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-FBN / FBP	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT/ ST-EPC/PSC	Simple
5	Non-fund-based - LT-Bank Guarantee	Simple
6	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Nivedita Anirudh Ghayal
Contact no.: 9908090944
Email ID: nivedita.ghayal@careedge.in

Relationship Contact

Name: Ramesh Bob Asineparthi
Contact no.: +91 90520 00521
Email ID: ramesh.bob@careedge.in

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