# Sanginita Chemicals Limited

**May 25, 2018**

## Ratings

| Facilities | Amount (Rs. crore) | Rating[1] | Remarks |
|---|---|---|---|
| Long-term Bank Facilities | 0.47 (Reduced from Rs.0.70 crore) | **CARE BBB-; Positive (Triple B Minus; Outlook: Positive)** | **Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** |
| Long-term/ short-term Bank Facilities | 26.00 (enhanced from Rs.25.00 crore) | **CARE BBB-; Positive /CARE A3 (Triple B Minus; Outlook: Positive/ A Three)** | **Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)** |
| Short-term Bank Facilities | 2.25 | **CARE A3 (A Three)** | **Reaffirmed** |
| **Total** | **28.72 (Rs. Twenty Eight crore and Seventy Two lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale**

The ratings assigned to the bank facilities of Sanginita Chemicals Limited (SCL) continue to derive strength on account of long standing experience of the promoters in the chemical industry and its established business relations with the reputed clientele.

The ratings also take cognizance of increase in capacity utilisation level, substantial growth in SCL's scale of operations, albeit on a moderate base, and improvement in profitability in FY18 (refers to the period April 01 to March 31), and comfortable capital structure and debt coverage indicators which improved further as on March 31, 2018.

The ratings also favourably factor in assured revenue visibility in the near term for SCL on account of off-take arrangement with Hindustan Zinc Limited (HZL) for a period of three years starting from October 2017.

The ratings, however, continue to be constrained by SCL's thin profitability margins, high working capital intensity of its operations, susceptibility of its profitability to volatile raw material prices and fluctuation in foreign currency rates and along with strict adherence to pollution control & environmental compliance norms as per government regulations.

The ability of SCL to significantly increase its scale of operations and improve its profitability on the back drop of highly volatile raw material prices along with its ability to operate at optimum capacity utilisation levels would be the key rating sensitivities.

**Outlook: Positive**

CARE believes that SCL will continue to benefit over the medium term from its established position in the copper-based inorganic chemical intermediates coupled with timely execution of orders from reputed clientele.

SCL's scale of operations and its profitability margins are expected to improve on the back of assured off take arrangement with HZL, expected increase in sales volume of CPC Blue and its ability to generate higher sales realisation. SCL's liquidity risk profile is also expected to further improve in the medium term with availability of cash generated from operating activities for working capital requirements.

[1]*Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.*

The outlook, however, may be revised to 'Stable' in case SCL's operational performance and profitability is not as per envisaged or deterioration in capital structure on account of increase in reliance on working capital borrowings or any large-size debt-funded capex.

**Detailed description of the key rating drivers**
**Key Rating Strengths**
***Experienced promoters and established track record of operations:*** Mr. Dineshsinh Chavada has over a decade long experience in the chemical industry and looks after the purchase and finance function of the company. He is supported by his son Mr. Vijaysinh Chavada, a chemical engineer, who is at the helm of production and research & development. The sales and marketing functions are managed jointly by the directors. SCL has established itself as the leading player in the domestic market for cuprous chloride, copper sulphate and cupric chloride.
***Increase in capacity utilisation level, reputed clientele and substantial growth in total operating income (TOI) during FY18:*** SCL has a reputed clientele base in the domestic market and during FY17, SCL's capacity utilisation also increased to 65% in FY18 as against 49% in FY17. During FY18, SCL's TOI grew by 32% on account of increase in sales volume and sales realisation of its key products. During FY17, the sales volume of Copper Sulphate, CPC Blue and Cuprous Chloride grew by 110%, 75% and 14% respectively over the previous year.
***Assured Off-take arrangement:*** During October 2017, SCL has entered into an assured off take agreement of 3,600 MTPA of copper sulphate with HZL for a period of 3 years subject to renewal for further consecutive period of 3 years on the successful completion of the first term. The agreement provides healthy revenue visibility and is expected to improve profitability of SCL.
***Improvement in capital structure and debt coverage indicators:*** The capital structure of SCL remained comfortable marked by overall gearing of 0.84 times as on March 31, 2018 (PY: 0.93 times). The debt coverage indicators has also reported an improvement marked by interest coverage and total debt to GCA of 3.32 times (PY: 1.76 times) and 6.62 years (PY: 15.85 times) respectively on the back of increase in the gross cash accruals and reduction in finance cost. Further, SCL has repaid its entire long term rupee term in May 2018 and thus, the company does not have any long term debt liability.

**Key Rating Weakness**
**Thin profitability margins and its susceptibility to volatile raw material prices and foreign exchange fluctuations:** During FY18, albeit improvement, the PBILDT and PAT margin remained thin at 4.16% (PY: 3.47%) and 1.77% (PY: 0.76%) respectively. SCL is engaged in manufacturing of generics on a moderate base, which limits its bargaining power with corporate customers leading to low profitability. Considering raw material cost is the major cost driver and prices of its key raw material are volatile in nature, the profitability of SCL is susceptible to volatility in raw material prices.
***Working capital intensive nature of operations:*** SCL's operations has high working capital intensity on account of the requirement to maintain higher inventory levels for execution of contracts. The working capital cycle improved during FY18 on account of lower credit period extended to customers. The average utilisation of its fund-based working capital facilities remained high during trailing twelve months ended March 31 2018.
***Stringent pollution norms for the chemical industry:*** Considering the hazardous nature of waste generated by the chemical industry and increase in the pollution levels, the operations of SCL and its clientele are exposed to stringent environmental regulations for disposal of effluents generated. Non-compliance may lead to closure of the manufacturing facility.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy of Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Manufacturing Companies]
[Financial ratios - Non Financial Sector]

**About the Company**

Incorporated in 2005, SCL (erstwhile known as Sanginita Chemicals Private Limited) is promoted by Mr. Dinesh B. Chavada and his son Mr. Vijaysinh Chavada to manufacture metal-based inorganic chemical intermediates at Chhattral, Gandhinagar, Gujarat. SCL started operations by taking over the business of M/s. Sanginita Chemicals, engaged in the manufacturing of mainly two metal-based inorganic chemicals intermediates, viz. Cuprous Chloride and Cupric Chloride (anhydrous and di-hydrate). Over the period of time, SCL had regularly expanded its manufacturing capacity and as on May 14, 2018, the company had an installed capacity of 12,200 MTPA, which is capable to manufacture 20 metal-based inorganic chemicals from different metals like Copper, Tin, Cobalt, Zinc and Nickel, etc.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---|---|
| Total operating income | 147.46 | 194.78 |
| PBILDT | 5.12 | 8.11 |
| PAT | 1.12 | 3.45 |
| Overall gearing (times) | 0.93 | 0.84 |
| Interest coverage (times) | 1.76 | 3.32 |

**Status of non-cooperation with previous CRA:** NA

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT/ ST-Cash Credit | NA | NA | NA | 26.00 | CARE BBB-; Positive / CARE A3 |
| Fund-based - ST-Bills discounting/ Bills purchasing | NA | NA | NA | 0.00 | Withdrawn |
| Fund-based - LT-Working capital Term Loan | NA | NA | NA | 0.47 | CARE BBB-; Positive |
| Non-fund-based - ST-Loan Equivalent Risk | NA | NA | NA | 0.25 | CARE A3 |
| Fund-based - ST-Working Capital Demand loan | NA | NA | NA | 2.00 | CARE A3 |

**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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT/ ST-Cash Credit | LT/ST | 26.00 | CARE BBB-; Positive / CARE A3 | - | 1)CARE BBB-; Stable / CARE A3 (04-Sep-17) | 1)CARE BB+ / CARE A4+ (07-Nov-16) | 1)CARE BB+ / CARE A4+ (10-Nov-15)<br>2)CARE BB+ / CARE A4+ (04-Nov-15) |
| 2. | Fund-based - ST-Bills discounting/ Bills purchasing | ST | - | - | - | 1)CARE A3 (04-Sep-17) | 1)CARE A4+ (07-Nov-16) | 1)CARE A4+ (10-Nov-15) |
| 3. | Fund-based - LT-Working capital Term Loan | LT | 0.47 | CARE BBB-; Positive | - | 1)CARE BBB-; Stable (04-Sep-17) | 1)CARE BB+ (07-Nov-16) | - |
| 4. | Non-fund-based - ST-Loan Equivalent Risk | ST | 0.25 | CARE A3 | - | 1)CARE A3 (04-Sep-17) | 1)CARE A4+ (07-Nov-16) | - |
| 5. | Fund-based - ST-Working Capital Demand loan | ST | 2.00 | CARE A3 | - | - | - | - |

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