Sanginita Chemicals Limited

June 20, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term/Short term Bank Facilities	34.75 (enhanced from Rs.26.00 crore)	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BBB-; Positive/ CARE A3 (Triple B Minus; Outlook: Positive/ A Three)
Short term Bank Facilities	0.25 (reduced from Rs.2.25 crore)	CARE A3 (A Three)	Reaffirmed
Long term Bank Facilities	-	-	Withdrawn^
Total Facilities	35.00 (Rupees Thirty Five crore only)		

Details of instruments/facilities in Annexure-1
^Rating withdrawn on the basis of No Dues Certificate received from lender

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Sanginita Chemicals Limited (SCL) continue to derive strength from long standing experience of its promoters in the chemical industry and its established business relations with reputed clientele. The ratings also favorably factor SCL's off-take arrangement with Hindustan Zinc Limited (HZL) for a period of 3 years as well as its moderate leverage and debt coverage indicators.

The ratings, however, continue to be constrained by SCL's thin profitability margins despite marginal improvement during FY19 (refers to the period from April 1 to March 31), susceptibility of its profitability to volatile raw material prices along with requirement of strict adherence to pollution control & environmental compliance norms as per government regulations.

SCL's ability to significantly increase its scale of operations as well as improve its profitability while efficiently controlling its working capital requirements so as to improve its liquidity would be the key rating sensitivities. Any large sized capex and its funding pattern would also be a key credit monitorable.

Outlook: Stable

The outlook on the long-term rating of the bank facilities of SCL has been revised from 'Positive' to 'Stable' on account of lower than expected improvement in its operational performance with moderation in its total operating income during FY19 and decline in sales volume of CPC blue crude which has relatively better profitability. The revision in outlook also takes into account decline in SCL's cash flow from operations and increase in its reliance on bank borrowings during FY19 to fund its working capital requirements leading to moderation in its liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Mr. Dineshsinh Chavada, Chairman & MD, has over a decade long experience in the chemical industry and looks after the purchase and finance functions of the company. He is supported by his son Mr. Vijaysinh Chavada, a chemical engineer, who takes care of production and research & development. The sales and marketing functions are managed jointly by the directors. SCL has an established presence of more than a decade in the domestic market for metal based chemical intermediates.

Reputed clientele along with medium-term assured off-take agreement with Hindustan Zinc Limited (HZL): SCL supplies its chemical intermediates to some of the well-established entities in the dyes and pigments industry. Furthermore, in October 2017, HZL entered into an assured off take agreement with SCL for a period of three years for supply of copper sulphate, providing revenue visibility to that extent. As per the terms of the agreement, sales to HZL increased from Rs.19 crore in FY18 to Rs.40 crore in FY19.

Moderate capital structure and debt coverage indicators: SCL had moderate capital structure marked by overall gearing of 0.84 times, which registered no improvement over the previous year end as the accretion to networth was offset by higher outstanding working capital bank borrowings. Also, SCL had very nominal long-term debt with scheduled repayment as of end-FY19. Debt coverage indicators continued to remain moderate in FY19 marked by interest coverage of 2.93x (P.Y.: 3.32x) and Total Debt/GCA of 6.35x (P.Y.: 6.62x).

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Key Rating Weaknesses

Thin operating profitability (PBILDT margin) which is also susceptible to volatility in raw material prices: In FY19, SCL's total operating income (TOI) decreased by around 4% y-o-y as it did not engage in trading activity during the year (Rs.24.16 crore of sales in FY18 was from trading segment); while its manufacturing sales also registered a lower than previously expected growth of around 8% y-o-y, primarily driven by growth in sales volume of copper sulphate under its agreement with HZL. Sale of CPC blue crude, which has relatively better profitability compared with its other products, declined on a y-o-y basis due to disruption of production at one of its vendors as well as due to sluggish demand for the same from the pigment industry. SCL's operating profitability remained thin, underlined by a PBILDT margin of 4.98% (P.Y.: 4.16%) during FY19, mainly due to limited value-addition in its products and lower bargaining power vis-à-vis its larger customers. The marginal improvement in the same was largely driven by absence of lower margin trading revenue in the overall sales mix. Further, considering raw material cost is its major cost driver the prices of which is volatile in nature, the profitability of SCL is susceptible to volatility in raw material prices.

Working capital intensive nature of operations: SCL's operations are working capital intensive in nature, with investment required in both inventory as well as receivables. SCL's operating cycle elongated to 83 days (P.Y.: 77 days) in FY19 due to higher inventory holding which was offset to some extent by shorter collection period with higher sales to HZL wherein credit period is shorter. Also, SCL had extended interest-free advances to its suppliers of Rs.14.61 crore (P.Y.: Rs.4.95 crore) as on FY19 end, which also contributed to increase in its working capital intensity.

Stretched liquidity: SCL's cash flow from operations decreased from Rs.2.79 crore in FY18 to Rs.0.72 crore, despite increase in cash accruals generated during the year, on account of its increased working capital requirements. Consequently, despite the enhancement in SCL's fund based working capital limits in May 2018, the utilization of these limits continued to remain high at 92% for trailing 12 months ended March 2019, with almost full utilization in several months and negligible cash balance as on end FY19. However, SCL's limited term debt repayment requirements during FY20 due to absence of any major long term debt as on March 31, 2019 and its moderate overall gearing is expected to provide some support to its liquidity. Further, its current ratio was comfortable at 1.86 times as on March 31, 2019.

Stringent pollution norms for the chemical industry: Considering the hazardous nature of waste generated by the chemical industry and its impact on the pollution levels, the operations of SCL 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 on Default Recognition
CARE's Policy on Withdrawal of Ratings
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Financial ratios - Non- Financial Sector

About the Company

Incorporated in 2005, SCL (erstwhile Sanginita Chemicals Private Limited) is promoted by Mr. Dinesh B. Chavada and his son Mr. Vijaysinh Chavada. The company is engaged in manufacturing of metal-based inorganic chemical intermediates at its facility located at Chhatral near Gandhinagar in Gujarat. SCL started its operations by taking over the business of M/s. Sanginita Chemicals which was engaged in 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 has regularly expanded its manufacturing capacity and as on March 31, 2019, it had an installed capacity of 12,200 MTPA for manufacturing 20 metal-based inorganic chemicals from different metals including copper, tin, cobalt, zinc and nickel.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	194.78	187.74
PBILDT	8.11	9.35
PAT	3.45	3.94
Overall gearing (times)	0.84	0.84
Interest coverage (times)	3.32	2.93

A: Audited

Status of non-cooperation with previous CRA: CRISIL has suspended its ratings vide press release dated July 24, 2014 on account of non-cooperation by SCL with CRISIL's efforts to undertake a review of the outstanding ratings.

Any other information: Not Applicable

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

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	-	-	-	34.75	CARE BBB-; Stable / CARE A3
Non-fund-based-Short Term	-	-	-	0.25	CARE A3
Fund-based - LT-Working capital Term Loan	-	-	-	0.00	Withdrawn
Fund-based - ST-Working Capital Demand loan	-	-	-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	34.75	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Positive / CARE A3 (25-May-18)	1)CARE BBB-; Stable / CARE A3 (04-Sep-17)	1)CARE BB+ / CARE A4+ (07-Nov-16)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (25-May-18)	1)CARE A3 (04-Sep-17)	1)CARE A4+ (07-Nov-16)
3.	Fund-based - LT-Working capital Term Loan	LT	-	-	-	1)CARE BBB-; Positive (25-May-18)	1)CARE BBB-; Stable (04-Sep-17)	1)CARE BB+ (07-Nov-16)
4.	Non-fund-based-Short Term	ST	0.25	CARE A3	-	1)CARE A3 (25-May-18)	1)CARE A3 (04-Sep-17)	1)CARE A4+ (07-Nov-16)
5.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	1)CARE A3 (25-May-18)	-	-

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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