

## Sanginita Chemicals Limited

July 29, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term Bank Facilities	34.75	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short-term Bank Facilities	0.25	CARE A3 (A Three)	Reaffirmed
<b>Total Facilities</b>	<b>35.00</b> <b>(Rupees Thirty Five crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

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

The ratings, however, continue to be constrained by SCL's moderate scale of operations with a dip in its total operating income (TOI) during FY20 (refers to the period April 1 to March 31), thin operating profit margin and stretched liquidity. The ratings are further constrained on account of susceptibility of SCL's profitability to volatile raw material prices and requirement of strict adherence to pollution control & environmental compliance norms as per government regulations.

### Key Rating Sensitivities

#### Positive Factors

- Healthy volume-driven growth in scale of operations with total operating income (TOI) of more than Rs.250 crore on sustained basis
- Improvement in PBILDT margin to more than 7% on sustained basis while maintaining RoCE above 15% and overall gearing below 0.70x
- Shortening of operating cycle to below 75 days on sustained basis resulting in reduced reliance on working capital borrowings as well as effective management of risk associated with price volatility

#### Negative Factors

- Significant decline in scale of operations with TOI below Rs.125 crore and PBILDT margin below 4.50% on sustained basis
- Any change in customer profile adversely impacting sales volume of SCL
- Elongation in operating cycle to more than 100 days on sustained basis resulting in increased reliance on working capital bank borrowings.
- Deterioration in overall gearing beyond 1.50x on account of increase in working capital intensity or any major debt funded capex

### 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 assured off-take agreement with HZL in place:** SCL supplies 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. With the agreement in place, sales to HZL increased from Rs.19 crore in FY18 to Rs.30 crore in FY20. Renewal of this contract post completion of three years will be crucial for SCL's prospects.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Moderate capital structure and debt coverage indicators:** SCL had a moderate capital structure marked by overall gearing of 0.91x as on March 31, 2020 (0.84x as on March 31, 2019). Overall gearing deteriorated marginally from 0.84x as on March 31, 2019 due to higher outstanding working capital bank borrowings to fund the increased working capital requirements, largely on account of higher outstanding receivables with slowdown in recovery due to imposition of lockdown in March 2020 end. However, SCL had very nominal long-term debt with scheduled repayment as of end-FY20. Furthermore, SCL's debt coverage indicators continued to remain moderate in FY20 marked by PBILDT interest coverage of 2.69x (P.Y.: 2.93x) and Total Debt/GCA of 8.52x (P.Y.: 6.35x). Deterioration in the same was on account of lower operating profit and cash accruals, owing to decline in scale of operations, coupled with higher outstanding debt.

#### Key Rating Weaknesses

**Moderate scale of operations with thin operating profitability which is susceptible to volatility in raw material prices:** SCL's key products include cuprous chloride, copper sulphate, CPC blue crude and cupric chloride. During FY20, SCL's TOI moderated by 15% y-o-y on the back of decline in sales volume as well as sales realization of its key products, due to uncertain economic environment owing to the outbreak of covid-19 pandemic which led to disruption in operations and sluggish demand. While overall sales volume declined by 9% y-o-y mainly due to decline in sales volume of cuprous chloride and CPC blue crude, sales realization of all the products declined in the range of 4% to 10%. Furthermore, with limited value addition in its product and low bargaining power vis-à-vis its larger customers, SCL continued to operate with a thin PBILDT margin of 5.22% during FY20; which however improved marginally by 24 bps y-o-y on the back of lower raw material cost during the period. Also, considering raw material cost is the major cost driver for SCL and price of the same is volatile in nature, profitability of SCL is susceptible to volatility in raw material prices.

**Stretched liquidity:** SCL's liquidity remained stretched with elongation in its operating cycle, resultant largely full utilization of its working capital limits and meager free cash balance. SCL's operating cycle elongated to 118 days during FY20 from 83 days in FY19 mainly due to delay in recovery of debtors owing to lockdown announced in March 2020 with outbreak of pandemic. Also, raw material inventory holding increased marginally as at FY20 end with piling up of raw material due to demand slowdown, while creditor period remained marginal as the company generally buys its main raw material, copper, on spot / advance payment so as to avail a cash discount and favorable prices. This led to increase in working capital requirement and a negative cash flow from operations of Rs.1.61 crore during FY20, which was funded from incremental working capital bank borrowings. Average utilization of working capital limits thus remained high at 96% over the past 12 months ended June 2020, with almost full utilization in several months. Also, company had meager free cash and bank balance of Rs.0.03 crore as on March 31, 2020.

However, SCL had negligible long-term debt with scheduled repayments of only Rs.0.14-0.16 crore over the next two years, which, along with its moderate overall gearing, provides some support to its liquidity. Also, SCL has not availed any moratorium on its debt facilities, offered by Reserve Bank of India (RBI) as a covid-19 relief measure.

**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](#)

[Criteria for Short Term Instruments](#)

[Liquidity analysis of non-financial sector entities](#)

[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. Dineshsinh 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 a period of time, SCL has regularly expanded its manufacturing capacity and as on March 31, 2020, 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)	FY19 (A)	FY20 (A)
Total operating income	187.74	160.01
PBILDT	9.35	8.35
PAT	3.94	3.37
Overall gearing (times)	0.84	0.91
Interest coverage (times)	2.93	2.69

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/Non-fund-based-LT/ST	-	-	-	34.75	CARE BBB-; Stable / CARE A3
Non-fund-based-Short Term	-	-	-	0.25	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	34.75	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (20-Jun-19)	1)CARE BBB-; Positive / CARE A3 (25-May-18)	1)CARE BBB-; Stable / CARE A3 (04-Sep-17)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	1)Withdrawn (25-May-18)	1)CARE A3 (04-Sep-17)
3.	Fund-based - LT-Working capital Term Loan	LT	-	-	-	1)Withdrawn (20-Jun-19)	1)CARE BBB-; Positive (25-May-18)	1)CARE BBB-; Stable (04-Sep-17)
4.	Non-fund-based-Short Term	ST	0.25	CARE A3	-	1)CARE A3 (20-Jun-19)	1)CARE A3 (25-May-18)	1)CARE A3 (04-Sep-17)
5.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	1)Withdrawn (20-Jun-19)	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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