

## Sanginita Chemicals Limited

September 04, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	0.70 (Reduced from Rs.1.00 crore)	CARE BBB-;Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+ (Double B Plus)
Long-term/ Short-term Bank Facilities	25.00	CARE BBB-;Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BB+ /CARE A4+ (Double B Plus/ A Four Plus)
Short-term Bank Facilities	2.25	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
<b>Total</b>	<b>27.95</b> <b>(Rs. Twenty Seven crore and Ninety Five lakh only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in the ratings of Sanginita Chemicals Limited (SCL) is on account of significant improvement in capital structure due to augmentation of its net worth base upon successful completion of IPO in FY17 (refers to the period April 1 to March 31) and growth in its scale of operations in metal-based inorganic chemical intermediates segment, albeit at a modest rate during FY17. The ratings continue to derive strength from SCL's strong customer profile and resourceful and experienced promoters.

The ratings, however, continue to be constrained by SCL's thin profitability margins, elongated working capital cycle on account of higher receivables, high working capital intensity, moderate liquidity and susceptibility of its profitability to volatile raw material prices and strict pollution control norms.

The ability of SCL to scale up its operations along with improvement in profitability in light of high volatility in raw material prices would be key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Improvement in capital structure on back of augmentation of its net worth base upon successful completion of IPO:** SCL made an Initial Public Offer (IPO) of 45,66,000 equity shares of face value of Rs.10 each for cash at a price of Rs.22.00 per share aggregating to Rs.10.05 crore in March, 2017. Consequently, the overall gearing improved from 1.51x as on March 31, 2016 to 0.93x as on March 31, 2017. The proceeds of issue was utilized to shore up its working capital requirements.

**Growth in the scale of operations; albeit at a moderate pace:** SCL is focusing on value-added products and during FY17, the sales volume of cupric chloride and CPC Blue Crude grew by 28% and 60% respectively. Furthermore, during 4MFY18, SCL reported total sales of Rs.75.48 crore as against total sales of Rs.36.81 crore during Q1FY17.

**Established operations with a long track record:** SCPL manufactures about 20 metal-based inorganic chemical intermediates like cuprous chloride, copper sulphate and cupric chloride which is derived from copper, nickel, cobalt, tin, etc. for over two decades. During last two years, as a forward integration, SCL commenced manufacturing of value-added product CBC.

**Experienced and resourceful promoters:** Mr.Vijaysinh Chavda, Director, is a chemical engineer and has experience of more than 10 years in chemical manufacturing and trading. He looks after production and research & development activity of SCL. Mr. Vijaysinh Chavda is supported by his father Mr. Dineshsinh Chavda, former Govt. Official, and looks after purchase and finance functions of the company.

#### Key Rating Weakness

**Thin profitability and moderate debt coverage indicators:** SCL operates in a very competitive segment on a moderate base which limits its bargaining power with corporate customers leading to lower profit margins. During FY17, the PBILDT and PAT margin remained modest at 3.43% and 0.76% respectively. SCL's debt coverage indicators stood stable marked by moderate interest coverage of 1.74 times (PY: 1.75 times).

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

**Susceptibility of profitability margins to volatility in raw material prices:** SCL's product profile is dominated by generics and hence subject to pricing pressure. Furthermore, the prices of its raw materials (constituted about 95% of total cost of sales during last three years) are volatile in nature, exposing SCL's profitability to volatility in raw material prices.

**Working capital intensive nature of operations:** SCL's operations are working capital intensive and it increased during FY17 on account of extended credit period offered to its customers. The average of its fund based working capital utilisation remained high at 89.70% during trailing twelve months ended June 30, 2017.

**Stringent pollution norms for the chemical industry:** Considering the hazardous nature of chemical industry, the operations of industry players are exposed to stringent environmental regulations for their industrial effluent including liquid and solid waste in the wake of rising pollution.

**Analytical approach:** Standalone

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term instruments](#)

[CARE's methodology for 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 Chhatral, Gandhinagar, Gujarat. As on July 31, 2017, the company has 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 (12M,A)	FY17 (12M,A)
Total operating income	144.28	147.46
PBILDT	4.73	5.06
PAT	1.10	1.12
Overall gearing (times)	1.51	0.93
Interest coverage (times)	1.75	1.74

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**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](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.

#### Analyst Contact

Name: Mr Ujjwal Patel

Tel: 079-40265649

Mobile: +91-8511193123

Email: [ujjwal.patel@careratings.com](mailto:ujjwal.patel@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

#### 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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	25.00	CARE BBB-; Stable / CARE A3
Fund-based - ST-Bills discounting/ Bills purchasing	NA	NA	NA	2.00	CARE A3
Fund-based - LT-Working capital Term Loan	NA	NA	2019	0.70	CARE BBB-; Stable
Non-fund-based - ST-Loan Equivalent Risk	NA	NA	NA	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	25.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+ / CARE A4+ (07-Nov-16)	1)CARE BB+ / CARE A4+ (10-Nov-15) 2)CARE BB+ / CARE A4+ (04-Nov-15)	1)CARE BB+ / CARE A4+ (05-Jan-15)
2.	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	-	-	-	1)Withdrawn (05-Jan-15)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	2.00	CARE A3	-	1)CARE A4+ (07-Nov-16)	1)CARE A4+ (10-Nov-15)	-
4.	Fund-based - LT-Working capital Term Loan	LT	0.70	CARE BBB-; Stable	-	1)CARE BB+ (07-Nov-16)	-	-
5.	Non-fund-based - ST-Loan Equivalent Risk	ST	0.25	CARE A3	-	1)CARE A4+ (07-Nov-16)	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 9198190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 9198196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 9199675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 9198209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 99888 05650  
 Tel: +91-172-5171 100 / 09  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)