Seya Industries Limited

April 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Fund Based Bank Facilities	71.10 (reduced from 75.00)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long-term Fund Based Bank Facilities (Term Loan)	460.66 (enhanced from 99.63)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Non Fund Based Bank Facilities	6.00	**CARE A2 (A Two)**	**Reaffirmed**
Total Facilities	**537.76 (Rupees Five hundred and thirty seven crore and seventy six lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Seya Industries Limited (SIL) continue to derive strength from the improvement in the operational performance of the company characterized by growth in revenues coupled with improvement in operating profitability margins in FY17 and 9MFY18 (refers to the period from April 01 to December 31) along with comfortable financial risk profile characterised by comfortable capital structure and debt coverage indicators. The ratings further continue to derive strength from established track record coupled with extensive experience and technical expertise of the management in the chemical industry.

However, the above strengths are tempered by SIL's moderate scale and working capital intensive nature of operations, profit margins susceptible to volatile raw material prices along with project implementation and stabilisation risk associated with the significant capex as compared to its net worth being undertaken by SIL.

Going forward, SIL's ability to scale up its operations while sustaining its healthy profitability margins amidst compliance of stricter pollution control norms, increasingly competitive environment and volatile raw material prices remain the key rating sensitivities. Further, the company's ability to maintain the comfortable capital structure as envisaged together with successful implementation and commissioning of ongoing capex without any cost or time overrun as per the planned funding profile are the other key rating monitorable.

<u>Outlook: Stable</u>

CARE has revised the outlook from 'Negative' to 'Stable' as CARE believes that though SIL's decision to funds its ongoing project by raising debt of Rs. 375 crore is expected to deteriorate the capital structure of the company in the medium term, it will continue to remain at comfortable levels. CARE has noted that the company has achieved financial closure for its ongoing project and will closely continue to monitor the developments with regard to the ongoing project of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record coupled with extensive experience of the management in the chemical industry

SIL has an established track record of more than two and half decades in the benzene based specialty chemicals segment. The company is managed by 4-member Board having rich experience and technical expertise in the various segment of the chemical industry. The management is supported by well qualified professionals from relevant fields.

Growth in revenues coupled with improvement in operating profitability margins in FY17 and 9MFY18

The company's income from operations improved by 12% in FY17 on a y-o-y basis mainly on account of 9% increase in volumes sold coupled with increase in realisation from its current portfolio of products. On similar lines, during 9MFY18, the company's income from operations improved by around 7% as compared to the same period last year. SIL's PBILDT margins improved from 17.55% in FY16 to 23.93% in FY17 and further to 30.54% in 9MFY18 owing to increase in realisation on the products sold by it coupled with shift in its product mix to sell more margin accretive products viz.

specialty chemicals as compared to other segments including, organic chemical intermediates, inorganic chemical intermediates, agrochemical intermediates and pharmaceutical intermediates. Consequently, PAT margins have improved from 9.72% in FY16 and to 13.62% in FY17 and to 15.68% in 9MFY18.

Comfortable capital structure

The gearing levels of the company remained stable at 0.47x as on March 31 2017 as compared to 0.48x as on March 31 2016 on the back of healthy accretion of profits to reserves coupled with infusion of equity by the promoters in FY17. However, the gearing levels have slightly deteriorated to 0.62x as on December 31, 2017 owing to draw down of a part of the sanctioned term loan by SIL for on-going expansion project. The Total debt to GCA of the company also improved slightly from 5.96x as on March 31, 2016 to 4.06x as on March 31, 2017 mainly due to healthy gross cash accruals generated by the company. Going forward, with its ongoing capex is expected to be funded largely out of debt, generation of healthy profits and cash accruals as envisaged are imperative from credit perspective.

Key Rating Weaknesses

Moderate Scale of Operations

With operating income of Rs. 308.72 crore during FY17 and tangible net worth of Rs.516.58 crore as on March 31, 2017, SIL is a relatively moderate sized entity**.**

Working capital-intensive nature of operations

Revenue growth over the past few fiscals due to continuous capacity addition and volatility in crude-linked raw material prices has increased the SIL's working capital requirement. This has resulted in increase in utilisation of its fund based and non-fund based limit to nearly 91% and 89% in the 12 months trailing February, 2018 respectively. Also, as the raw materials are predominantly crude derivatives, the company's working capital cycle is susceptible to volatility in crude prices. Further, the operating cycle of the company improved from 117 days in FY16 to 104 days in FY17 mainly on account of an increase in the average creditor period. Going forward, the ability of the company to manage its operating cycle efficiently is expected to remain as a key rating monitorable.

Project implementation and stabilization risk

The company is currently executing a project involving expanding its capacities of PNCB & ONCB, and also broaden its product mix to increase the range of products, both vertically (by adding downstream products) and horizontally (by adding Sulphuric Acid and allied products to its product mix). The total cost of this project is around Rs. 581.62 crore and is to be funded through a mix of debt of Rs.375 crore and remaining through equity infusion by the promoters. The scheduled date for commissioning of the project is October 2019. In this regard, the company has engaged several well experienced and reputed EPCM consultants & Turnkey Contractors for Process Know-how, Design, Engineering, Supply, Erection Supervision & successful Commissioning of certain plants on Turnkey basis. These Consultants and turnkey Plant Suppliers have offered process & performance guarantee for plants being supplied/set supplied/set-up. The company has already incurred around 52% of the project cost largely through promoter contribution. Nevertheless, going forward, considering the size of the project being 1.04 times its net worth as on December 31, 2017, and as the major part of the project execution is expected to happen; the company is exposed to project implementation and stabilization risk.

Profit margins susceptible to volatile raw material prices

The principal raw materials required by SIL are benzene and Chlorine. While chlorine is negatively priced, Benzene being a crude derivative is priced in tandem with the crude oil prices which are highly volatile. Thus the company is exposed to volatility in raw material prices. Although the variation in raw material prices may be passed on to the customer in the long-run, the company has to absorb any raw material price volatility in the short-term as selling prices reflect such changes with a time-lag.

Analytical approach:

Standalone

Applicable Criteria

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

About the Company

Incorporated on October 11, 1990 as Sriman Organic Chemical Industries Private Limited, Seya Industries Limited (SIL) is engaged in manufacturing of benzene based organic chemicals, viz., mono chloro benzene (MCB), para nitro chloro benzene (PNCB), ortho nitro chloro benzene (ONCB), 3,3 di chlorobenzidine (3,3 DCB), 2,4 di nitro chloro benzene (2,4

DNCB) and para nitro aniline (PNA) and by-products like sulphuric and hydrochloric acid which find application in pharamceutical, dyes, agrochemical , fertilizer and rubber industries. The manufacturing facility is located at Tarapur, Boisar (Maharashtra) with capacity to produce 18,000 MT of MCB, 8,750 MT of ONCB, 18,750 MT of PNCB, 6,000 MT of 2,4 DNCB, 7,600 MT of 3,3 DCB and 4,000 MT of PNA as on March 31, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	275.55	308.72
PBILDT	48.35	73.87
PAT	26.78	42.06
Overall gearing (times)	0.48	0.47
Interest coverage (times)	3.80	5.23

A: Audited

Status of non-cooperation with previous CRA: None

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.*

Analyst Contact:
Name: Vikash Agarwal
Tel: 022 - 6754 3405
Email: vikash.agarwal@careratings.com

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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-Cash Credit	-	-	-	71.10	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	March- 2027	460.66	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A2

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-Term Loan	LT	460.66	CARE A-; Stable	-	1)CARE A-; Negative (27-Apr-17)	-	1)CARE A- (23-Dec-15)
2.	Fund-based - LT-Cash Credit	LT	71.10	CARE A-; Stable	-	1)CARE A-; Negative (27-Apr-17)	-	1)CARE A- (23-Dec-15)
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A2	-	1)CARE A2 (27-Apr-17)	-	1)CARE A2 (23-Dec-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: 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

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

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

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@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

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

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

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

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

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

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

CIN - L67190MH1993PLC071691