Seya Industries Limited

April 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities – Term Loan	99.63 (enhanced from Rs.48.00 crore)	**CARE A-; Negative (Single 'A' Minus; Outlook: Negative)**	**Reaffirmed**
Long Term Bank Facilities – Fund Based	75.00 (enhanced from Rs.50.00 crore)	**CARE A-; Negative (Single 'A' Minus; Outlook: Negative)**	**Reaffirmed**
Short Term Bank Facilities	6.00	**CARE A2 (A Two)**	**Reaffirmed**
Total	**180.63 (Rupees One Hundred and Eighty Crore and Sixty Three Lakhs Only)**		

Details of facilities/instruments in Anneuxre-1

Detailed Rationale and Detailed description of the key rating drivers

The ratings assigned to the bank facilities of Seya Industries Ltd continue to derive strength from the experience of its promoters in the chemicals business, consistent improvement in operational performance exhibited backed by stable demand outlook of speciality chemical products and financial support provided over the years by the promoters to fund the capex.

The ratings however continue to be constrained by the volatility in raw material prices which may affect the profitability margins, working capital intensive nature of operations and competitive nature of the industry. Further, the significant capex, which the company is currently executing, exposes the company to project execution and marketing risk.

Ability to commission the on-going project without any time/cost overrun, ramp up operations as envisaged and optimally utilize the new capacity added is the key rating sensitivity.

Outlook: Negative

CARE believes that Seya's change of plans, to fund its upcoming project by raising debt of Rs. 375 crore as against the earlier envisaged plans to fund the entire project through Equity/ Promoter funding, is likely to deteriorate the capital structure of the company in the medium term. The higher than anticipated leveraging by the company is likely to weaken the debt coverage indicators (TD/GCA and the overall gearing) over the medium term period. Thus the outlook is revised to negative. The outlook will be revised to stable on successful commissioning of the on-going capex and ramp-up the operations as envisaged.

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

Detailed description of the key rating drivers

Key Rating Strengths

Rating Strength 1: Experienced promoters and management along with consistent financial support

The promoter of SIL - Mr. Ashok G. Rajani, has over three decade of experience in the chemical industry. The promoter's has supported the company through unsecured loan or preference shares, to fund the capex or meet the working capital gap. As on March 31, 2016, funds amounting to Rs. 460.82 crore, brought in by the promoters/related parties/family concerns have been considered as quasi-equity for analytical purpose. These are subordinate to bank borrowings.

Rating Strength 2: Improvement in capacity utilization of the existing and new facility leading to increase in scale of operations and profitability

The sales of the company increased at a CAGR of about 28% during the period FY14 to FY16. With better utilization of the new and the existing facility, the sales of Seya Industries increased to Rs. 275.55 crore in FY16 as compared to the sales recorded in FY14 of Rs. 132.2 crore. Despite being an industry norm of cost plus fixed margin business, the operating margins of Seya Industries has seen a steady increase.

Key Rating Weakness

Rating Weakness 1: Profitability exposed to volatility in raw material prices

The principle raw material for the company i.e. benzene is a crude derivative (constitutes around 49% of total raw material cost and is sourced from BPCL, HPCL, IOCL) and thus the company is exposed to volatility in raw material prices.

Rating Weakness 2: Competition from other MNCs, unorganised players and imports

The industry is fragmented with other domestic players like Aarti industries Ltd, Chemie Organics Pvt. Ltd, and Kutch Chemicals Industries Ltd along with the international players. This intense competition is in turn affecting the ability of the company to pass on the complete rise in raw material prices.

Rating Weakness 3: Working capital-intensive operations leading to moderate liquidity profile

The company has a long operating cycle mainly on account of long collection period. The company has to provide its customers a credit period of about 2-3 months. Along with a longer credit period, the company also has to main higher inventory. The operating cycle of the company has worsened from around 93 days in FY15 to around 117 days in FY17 mainly on account of increase in collection period.

Rating Weakness 4: Significant capex plan exposes the company to project funding, implementation and marketing risk

The total project cost of phase II is around Rs. 580.16 crore and is expected to be funded by debt Rs. 375.00 crore and remaining by Equity share/unsecured loan/internal accrual. The project is expected to be commissioned in phases by FY19. Considering the size of the project as compared to existing operations the company is exposed to project implementation risk though it is in similar lines. Further even after implementation, ability to ramp up operations as envisaged and optimally utilize the new capacity added is the key rating sensitivity.

Analytical approach: CARE Ratings has followed a standalone approach for deriving at the ratings of Seya Industries limited, as there are no major group companies, which are into related operations

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Rating methodology – Services Companies
Financial Ratios-Non Financial Sector
Criteria for Short Term Instruments

About the Company

Promoted by Mr. Ashok G. Rajani, Seya Industries Ltd (SIL) is engaged in manufacturing of specialty chemicals, viz., Mono Chloro Benzene (MCB), Para Nitro Chloro Benzene (PNCB), Ortho Nitro Chloro benzene (ONCB) and by-products Sulphuric and hydrochloric acid. These products have broad-spectrum usage in pharmaceuticals, Speciality chemicals, agrochemicals, insecticides, dye-intermediates, pigments, rubber chemicals etc. The manufacturing facility is located at Tarapur, Boisar (Maharashtra) with capacity to produce 18,000 MT of MCB, 5,000 MT of ONCB, 10,000 MT of PNCB, 6,000 MT of DNCB, 7,600 MT of DNCB and 4,000 MT of PNA as on March 31, 2016.

During FY16 (refers to the period April 1 to March 31), SIL reported a PAT of Rs. 26.78 crore (PY: Rs. 13.03 crore) on a total operating income of Rs. 275.55 crore (PY: Rs. 248.55 crore). During 9M FY17 the company had reported a PAT of Rs. 25.06 crore on total income of Rs. 228.46 crore.

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr. Arunava Paul
Tel: 6754 3667
Mobile: +91 9820904584
Email: arunava.paul@careratings.com

****For detailed Rationale Report and subscription information, please contact us at 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.

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-Term Loan	-	-	Dec 2021	99.63	CARE A-; Negative
Fund-based - LT-Cash Credit	-	-	-	75.00	CARE A-; Negative
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 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-Term Loan	LT	99.63	CARE A-; Negative	-	-	1)CARE A- (23-Dec-15)	1)CARE BBB (17-Oct-14)
2.	Fund-based - LT-Cash Credit	LT	75.00	CARE A-; Negative	-	-	1)CARE A- (23-Dec-15)	1)CARE BBB (17-Oct-14)
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A2	-	-	1)CARE A2 (23-Dec-15)	1)CARE A3+ (17-Oct-14)

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

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. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@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

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