

## Shiva Pharmachem Limited

April 05, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	82.23 (enhanced from Rs. 60.19 crore)	<b>CARE BBB; Stable (Triple B ; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-Term Bank Facilities	195.00	<b>CARE A3+ (A Three Plus)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>277.23 (Rupees Two Hundred Seventy Seven crore and Twenty Three lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale

The ratings assigned to the bank facilities of Shiva Pharmachem Limited (SPL) continue to derive strength from the long standing experience of the promoters in the chemical industry, diversified product portfolio and established business relations with the reputed and longstanding clientele in export and domestic market.

The ratings also favourably factor in completion of the capex at the Luna Plant within envisaged time and cost parameters, resumption of operations along with increase in capacity utilisation levels during 11MFY18 (FY refers to the period April 01 to March 31), growth in the scale of operations during FY17 and 11MFY18 and confirmed order book from reputed clientele providing healthy revenue visibility in the near term.

The ratings, however, continue to be constrained by its moderate capital structure and risk associated with volatility in raw material prices and fluctuation in foreign currency exchange rates. The rating strengths are also partially offset by reduction in profitability during FY17 and 11MFY18 on account of higher operational and depreciation costs.

The ability of SPL to significantly increase its scale of operations and improve its profitability in a competitive industry scenario along with improvement in its capital structure would be the key rating sensitivities. Furthermore, SPL's ability to achieve healthy capacity utilisation levels at its newly commissioned capacity at Luna and Karakhadi plant, increase its scale of operations and improve its profitability and capital structure while effectively managing its working capital requirements are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Experienced promoters**

SPL was promoted by Mr. Rakesh Agrawal in 1999. He is a chemical engineer and has an industrial experience of more than three decades. He is the erstwhile promoter and a former Managing Director of Ineos Styrolution India Limited, which is engaged in the manufacturing of Acrylonitrile Butadiene Styrene (ABS), Styrene Acrylonitrile (SAN) and Polystyrene. SPL is currently managed by Mr. Rakesh Agrawal's sons, Mr. Vishal Agrawal (Managing Director) and Mr. Rahul Agrawal (Joint Managing Director).

##### **Diversified product portfolio and reputed clientele**

SPL has a diversified product portfolio consisting of different variants of chemicals having application in pharmaceuticals, agro-chemicals, peroxide, cosmetics, plastic, etc. SPL is also engaged in trading of chemicals in the domestic market. In FY17, SPL expanded its product portfolio and commenced manufacturing six new products such as lauroyl chloride, PCMx, cloquintocet mexyl, bemotrizinol, ethylhexyl triazone and P-toluoyl chloride.

SPL has a diversified geographical presence and a reputed clientele based in Germany, USA, Japan, South Korea, China, etc. and earned approximately 64% of its TOI from exports in 11MFY18.

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

During Q4FY18, SPL had entered in to an agreement with few renowned MNCs', which provides higher revenue visibility in the near term.

**Completion of the capex at the Luna Plant and scaling up of operations at Karakhadi plant**

SPL completed the restoration cum capacity expansion project post fire in February 2015 of its manufacturing unit at Luna in February 2017. Total sales from the Luna plant grew to Rs.166 crore in 11MFY18 as compared to Rs.136 crore in FY17. The newly commissioned facility at Karakhadi also reported growth in execution of orders from Rs.12 crore in FY17 to Rs.22.59 crore on 11MFY18. The increase in capacity utilisation level and total sales from the Karakhadi and P3 Luna plant in FY18 has increased the overall manufacturing sales of the company.

**Continuous growth in TOI albeit decline in profitability margin**

During FY17, SPL reported a marginal growth in its TOI to Rs. 430.33 crore as compared to Rs. 423.16 crore in FY16 owing to lower revenue generation from P3 Luna plant, which was not entirely operational in FY17.

The PBILDT margin of SPL declined to 403 bps to 11.09% during FY17 on account of higher operational cost at the newly commissioned manufacturing facility at Karakhadi plant, higher research and development expenditure and new product registration cost along with impact of volatility in raw material prices. SPL incurred a loss of Rs.5.30 crore during FY17 owing to reduction in PBILDT margin and higher depreciation cost as a result of expansion cum maintenance capex at the all three plants. However, the company reported a cash profit of Rs.27.46 crore.

As per the provisional results for 11MFY18, SPL reported an annualised y-o-y growth of 18% in its TOI (to Rs.464.50 crore) with a PBILDT and PAT margin of 10.98% and 0.43% respectively.

**Key Rating Weakness**

**Moderate capital structure and debt coverage indicators**

The overall gearing of SPL remained moderate at 2.14 times as on FY17 end as against 2.13 times in FY16 end on account of increase in bank borrowings for working capital. The debt coverage indicators i.e total debt to GCA and interest coverage declined and stood at 9.01 years (6.37 years in FY16) and 2.33 times (2.80 times in FY16) respectively in FY17 due to reduction in GCA in FY17 and reduced PBILDT respectively.

**Susceptibility of profitability to the volatile raw material prices and foreign exchange rate fluctuations:**

Majority of the raw materials of SPL (used in manufacturing of acid chlorides) are derivatives of crude oil and are subject to the risk of volatility in global crude oil prices. Although SPL is an export-oriented unit with exports consisting about 64% of its total income in 11FY18, the company has a natural hedge against exchange rate fluctuation risk since imports of raw materials constituted around 47% of total exports.

**Analytical approach:** Standalone

**Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios - Non Financial Sector](#)

**About the Company**

Incorporated in 1999, SPL is a Vadodara (Gujarat) based ISO 14001:2004 accredited manufacturer of acid chlorides and specialty chemicals which are being used by pharmaceutical, agro chemicals, peroxide and fragrance industry. Promoted by Mr. Rakesh Agrawal, SPL is currently managed by his sons Mr. Vishal Agrawal (Managing Director) and Mr. Rahul Agrawal (Joint Managing Director). SPL has three manufacturing facilities located at Luna, Dahej (SEZ) and Karakhadi (near Vadodara).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	423.16	430.33
PBILDT	64.68	47.72
PAT	14.17	-5.30

Overall gearing (times)	2.13	2.14
Interest coverage (times)	2.80	2.33

**Status of non-cooperation with previous CRA:** NA

**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.

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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	NA	NA	NA	25.00	CARE BBB; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	10.00	CARE BBB; Stable
Term Loan-Long Term	NA	NA	June 2023	47.23	CARE BBB; Stable
Non-fund-based - ST-BG/LC	NA	NA	NA	195.00	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 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-Cash Credit	LT	25.00	CARE BBB; Stable	-	1)CARE BBB; Stable (10-Apr-17)	1)CARE BBB (14-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB; Stable (10-Apr-17)	1)CARE BBB (14-Apr-16)	-
3.	Non-fund-based - ST-BG/LC	ST	195.00	CARE A3+	-	1)CARE A3+ (10-Apr-17)	1)CARE A3+ (14-Apr-16)	-
4.	Term Loan-Long Term	LT	47.23	CARE BBB; Stable	-	1)CARE BBB; Stable (10-Apr-17)	-	-

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