

## Sicagen India Limited

August 13, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term/ Short Term Bank Facilities	23.00	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable / A Four Plus)	Reaffirmed
Short Term Bank Facilities	35.00	CARE A4+ (A Four Plus)	Reaffirmed
<b>Total</b>	<b>58.00</b> <b>(Rupees Fifty Eight crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sicagen India Limited (SIL) are constrained by thin profitability margins due to majorly trading nature of business, moderate debt coverage indicators, working capital intensive nature of operations, susceptibility of the profit margins to the inherent volatility associated with traded goods prices and its presence in the highly competitive & fragmented industry.

The ratings, however, derive strength from the diversified revenue stream to an extent and comfortable capital structure.

CARE also notes that SIL had availed moratorium on certain debt obligations during the period March-May 2020, as under COVID-19 relief measure permitted by Reserve Bank of India.

### Rating Sensitivities

#### Positive Factors

- Improvement in profitability and cash accruals on sustained basis.
- Improvement in debt coverage indicators on sustained basis.

#### Negative Factors

- Any significant decline in the operating performance on a sustained basis.
- Deterioration in capital structure marked by increase in overall gearing.
- Any significant and continuous increase in exposure to group entities.

### Detailed description of the key rating drivers

#### Key Rating weaknesses

##### **Low profitability margins leading to moderate debt coverage metrics**

During FY20, SIL's total income on consolidated basis declined 15% y-o-y to Rs.701 crore from Rs.824 crore in FY19, majorly due to fluctuation in steel prices during the year and COVID-19 impact during Q4FY20. During Q4FY20, the company's total income declined by 43% y-o-y, due to adverse slowdown in the end-user sectors including construction and real estate. PBILDT margin though witnessed improvement on y-o-y basis, it stood low at 1.88% in FY20 (PY: 0.85%) due to trading nature of business. For FY20, PAT was Rs.0.4 crore (PY: Rs.0.1 crore) and GCA was Rs.6.5 crore (PY: Rs.6.1 crore). Due to low cash accruals, the company's debt coverage metrics remain moderate. Interest coverage indicator stood at 1.50x (PY: 0.76x) for FY20 and total debt/GCA stood at 14.74 years as on March 31, 2020 (PY: 19.37 years).

##### **Working capital intensive nature of operations**

The nature of the business undertaken by SIL is working capital intensive given that majority of business being trading. In building materials division, the company offers credit period of 60-90 days to its customers, while it receives credit period of around 30-45 days from the suppliers. On the consolidated basis, working capital cycle remains stretched at 122 days as on March 31, 2020 (PY: 102 days) due to high credit period provided to the customers to support sales.

##### **Susceptibility of margins to volatility in price of traded products**

Nearly 50% of the SIL's income is derived from trading of steel pipes and other steel products. The steel industry is cyclical in nature with correlation to economic cycle; hence earnings remain susceptible to fluctuations in steel prices. The company procures steel products from the suppliers based on expected demand and are not completely backed by orders. Therefore,

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

the company has to absorb any fluctuations in traded goods' prices that might occur from the time of material procurement until dispatch to customers.

### **Competition from unorganized players**

The presence of many unorganized players and the fragmented nature of the building materials industry pose a challenge to SIL. With respect to building materials division, SIL has long-standing relationship with majority of its suppliers and has strong network of 14 sales offices cum warehouses across India. SIL sources materials from different manufacturers and supplies to its customers. Major suppliers include TATA, JSW, Jindal and Steel Authority of India in Steel & pipes; Finolex in cables; Jain, Astral and Ajay in PVC; Dalmia and Penna in cement, while its customer base includes contractors, builders and industrial buyers. Despite that due to low entry barriers, the industry remains highly competitive, resulting in intense price competition. SIL's other major business divisions – manufacturing of cables, drums and specialty chemicals, are also exposed to competition from other market players and unorganized players.

### **Key Rating strengths**

#### ***Diversified revenue stream***

SIL, on a consolidated basis has a diversified stream of revenue with trading goods contributing around 65% and manufacturing goods contributing around 34% to the consolidated total income for FY20. In terms of divisions, building materials trading division contributed 63% (PY: 68%), cables manufacturing division contributed 23% (PY: 19%) and rest of income are from manufacturing of specialty chemicals & drums, steel fabrication and trading & servicing of governor instruments. Diversity in trading & manufacturing portfolio lessens the company's concentration risks as well cyclicity associated with a particular commodity or industry to an extent.

#### ***Comfortable capital structure***

The capital structure of the company remains comfortable with Net worth of Rs.374 crore (as on March 31, 2020) and low leverage levels. As on March 31, 2020, overall gearing stood at 0.26x (PY: 0.31x). The company as adopted Ind-AS 116 standard from April 2019 onwards, therefore lease payments are considered as part of financial liability. Without including lease liabilities, as on March 31, 2020, long term debt-equity ratio stood at 0.02x (PY: 0.02x) and adjusted overall gearing at 0.21x (PY: 0.31x).

#### ***Liquidity: Adequate***

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations. On a standalone basis, free cash & bank balance of SIL stood at Rs.5.6 crore as on March 31, 2020. The company's average working capital (cash credit facility) utilization was 40.25% for the 12-month period ended June 2020. As part of COVID-19 relief package announced by RBI, the company had availed moratorium on interest obligations with respect to its cash credit and channel financing facilities during the period March-May 2020 and all the lenders had approved the same.

**Analytical approach:** Consolidated financials of Sicagen India Limited (SIL) along with its wholly-owned subsidiaries Wilson Cables Private Limited (WCPL), Danish Steel Cluster Private Limited (DSCPL) and South India House Estates and Properties Limited. For FY20, SIL contributed 62%, WCPL 35% and DSCPL 3%, to the consolidated revenue of SIL.

### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology - Manufacturing Companies](#)

[CARE's Rating Methodology - Wholesale Trading](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology - Short Term Instruments](#)

[Financial ratios \(Non-Financial Sector\)](#)

### **About the Company**

Sicagen India Limited (SIL) is a public limited company (listed on NSE and BSE), incorporated in June 2004. SIL was de-merged from Sical Logistics Limited with effect from October 1, 2006. SIL is part of AM International group, Singapore (MA Chidambaram group). SIL operates across diversified businesses including trading of building materials (majorly steel pipes/tubes, TMT bars & cables), sales & servicing of governor instruments and manufacturing of drums, barrels, boats & specialty chemicals. SIL has manufacturing units for specialty chemicals (in Pondicherry) and drums (in Chennai).

SIL has 3 subsidiaries - Wilson Cables Private Limited (WCPL), a Singapore-based manufacturer of cables for industrial and other critical applications; Danish Steel Cluster Private Ltd (DSCPL), a Bengaluru-based company specializing in precision fabrication of stainless steel; and South India House Estates and Properties Ltd, which maintains land assets.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	824	701
PBILDT	7.0	13.2
PAT	0.1	0.4
Overall gearing (times)	0.31	0.26
Interest coverage (times)	0.76	1.50

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

#### 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-Working Capital Limits	-	-	-	15.00	CARE BB+; Stable / CARE A4+
Fund-based - ST-Working Capital Limits	-	-	-	35.00	CARE A4+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	8.00	CARE BB+; Stable / CARE A4+

#### 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 - LT/ ST-Working Capital Limits	LT/ST	15.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (13-Jun-19)	-	-
2.	Fund-based - ST-Working Capital Limits	ST	35.00	CARE A4+	-	1)CARE A4+ (13-Jun-19)	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	8.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (13-Jun-19)	-	-

#### Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Working Capital Limits	Simple
2.	Fund-based - ST-Working Capital Limits	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

**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:

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.

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