Sigachi Industries Private Limited

February 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	10	**CARE BBB-; Stable (Triple B minus; Outlook: Stable)**	Assigned
Total	**10 (Rupees Ten Crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sigachi Industries Private Limited (SIPL) derives its strengths from qualified promoters with extensive chemical industry experience, location advantage of the business divisions, globally compliant manufacturing standards, diversified MCC product portfolio, established supplier and customer base, increasing total operating income albeit fluctuating profitability margins, however remaining at a satisfactory levels, and comfortable capital structure and satisfactory debt coverage indicators. The rating, however, is underpinned by the modest scale of operations, susceptibility in profit margins due to volatility in prices of raw material and foreign currency rates, competition from reduced quality products and working capital intensive nature of operations.

The ability of the company to increase its revenue while maintaining the profit margins amidst competition and to efficiently manage its working capital requirements shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Qualified promoters with extensive industry experience

SIPL is promoted by Mr. Rabindra Prasad Sinha (Executive Chairman), Mr. S. Chidambaram (Executive Vice Chairman), Mr. Amit Raj Sinha (Managing Director and CEO), Mr. Dharma PrakashTripathi, Mr. Vijay Bhaskar and Mr. Swami Das Nigam. Mr. Rabindra Prasad Sinha, M.Tech in Chemical Engineering from Banaras Hindu University, has more than three decades of experience in the chemical industry. In the past, he has worked with Reliance Cellullos Products Limited (Andhra Pradesh). His son, Mr. Amit Raj Sinha, a B.Tech in Marine Engineering looks after the marketing and commercial operations of the company. Mr. S. Chidambaram, has more than four decades of experience in the chemical industry and has been actively maneuvering the path of SIPL since its inception. Mr. Dharma Prakash Tripathi, B.Tech in Chemical Engineering has more than four decades of experience in the heavy, fine chemical and bulk drugs industry. Although not actively involved in the day to day operations of the company, SIPL benefits from his networks with renowned formulation industries in the world and seeks guidance relating to products from him.

Location advantage

With three units located across Gujarat and Telangana, SIPL has an aggregate installed capacity of 7,680 MTPA. The facilities house equipment and systems, and comply with the norms of USFDA (United States Food and Drug Association) and WHOGMP (World Health Organization Good Manufacturing Practice).

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

SIPL's production facility at Dahej- Special Economic Zone (Bharuch, Gujarat), with next door 'Dahej Port', gives an added advantages in terms of tax benefits, reduced transportation costs and faster turn- around of raw material to finished goods.

Globally compliant manufacturing standards

Over the years, in order to compete and match the standards of its international and domestic contenders, SIPL has invested in business strengthening by attaining certifications like: EXCiPACT GMP (Pharmaceutical Excipients Good Manufacturing Practices), EDQM-CEP (European Directorate for the Quality of Medicine and health care- **Certificate of Suitability to the monographs of the European Pharmacopoeia)**, WHO-GMP (World Health Organization Good Manufacturing Practice), ISO 9001:2015 (International Standard for Standardization) and FSSC 22000 (Food Safety System Certification). In addition to the above, the production is also amenable to Halal, Kosher criterions and the company is certified for the same.

Further, the company has state of art technologies and qualified technocrat team to ensure stringent international standards of quality. The facility is supported by a Research & Development (R & D) Team (approved by Government of India, Ministry of Science & Technology and Department of Science and Industrial Research).

Diversified MCC product portfolio with good R&D capability

SIPL has been one of the early participants in the MCC industry in India, which gave the company an edge to comprehensively understand the industry requirements. Since entering the market, the company has developed 36 grades of MCC to match the client requisites. Its brands such as HiCel™ and AceCel™command a price premium in the market.

The R & D facilities of SIPL are approved by Government of India, Ministry of Science & Technology, Department of Science and Industrial Research.

Established supplier and customer network with diversified mix of export and domestic sales

SIPL has established relationships with its key suppliers which enables the company to procure its raw materials at competitive prices. Conversely, the company faces concentration of suppliers and procures ~98% of its raw material from abroad owing to the unavailability of standard refined wood pulp in the domestic market.

Further,the company has been associated with some reputed and renowned clients in the industry (for more than two decades on an average). Usually, ~70% of SIPLs order book comprises of repeat orders from its long standing clients.

Increasing total operating income during past three years ended FY17 albeit fluctuating profitability margins

The total operating income (TOI) of the company grew at a CAGR (Compounded Annual growth Rate) of 13.28% during FY15-FY17 owing to increase in capacity utilization on account of increased orders from existing and new customers in non-cyclical end markets. In the past few years, the company has given much importance to exploration of new markets which is evident with the increase in export sales compared to that of domestic sales.

The profitability margins of the company remained fluctuating during the review period (FY15-FY17).

Comfortable capital structure

The capital structure of the company remained satisfactory, with debt equity ratio and overall gearing marked at 0.29x and 1.43x respectively as on March 31, 2017 owing to scheduled repayment of long term debt and increasing networth due to year-on-year accretion of profits. However, the working capital requirements of the company has been increasing year-on-year to manage day to day operations

Although, the debt coverage indicators marked by interest coverage ratio and TD/GCA marginally deteriorated from 2.55x and 4.79x respectively in FY16 to 2.26x and 6.86x in respectively FY17 on account of increase in working capital bank borrowings and subsequent increase in interest expenses, however, remained satisfactory.

Key Rating Weaknesses

Uncertainty with regard to profitability due to admittance of reduced quality products and competition from existing players

MCC stands to be the flagship product segment of the company with around 36 grades, contributing around 97% to the total sales of the company in FY17.

Notwithstanding the aforementioned, the risks associated with the entry of reduced quality products in the MCC industry inevitably persist where the presence of unorganized players with limited regulatory approvals cause a direct threat to SIPL's sales volume and its profitability margins.

Susceptibility in profit margins due to volatility in prices of raw material and foreign currency rates

The principal raw material used in manufacturing micro crystalline cellulose is refined wood pulp. In the recent times, the availability of wood in the world is decreasing, along with a growing demand for wood pulp in developing countries of Asia, Africa, and Latin America, affecting the prices of refined wood pulp. In addition to the fluctuations in raw material prices, the volatility in foreign exchange rates invariably influences the profit margins of SIPL owing to its substantial export sales and raw material imports.

Small scale of operations with high working capital intensity

The operations of SIPL remained working capital intensive in nature marked by an operating cycle of 86 days in FY17. The company maintains inventory level of around 2-3 months to enable smooth management of manufacturing process which results in around one month of inventory level each for raw materials and work-in-progress along with 10-15 days of finished stock to meet clients' requirement. Furthermore, the company extends an average credit period of 50-60 days to its customers on account of their long standing relationship. The company avails an average credit period of 90 days from its suppliers based upon relationship and sometimes payments to suppliers are made based upon realization of debtors. Due to the aforesaid mentioned factors, the company relies on working capital borrowing to fund day to day operations.

Analytical approach: Standalone

Applicable criteria:
Criteria on assigning Outlook to Credit ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-FinancialSector

About the company

Telangana based, Sigachi Industries Private Limited (SIPL), erstwhile Sigachi Chlorochemicals Private Limited, was incorporated in the year 1989, with an objective to manufacture chlorinated paraffin. In the year 1995, the company initiated the manufacturing and marketing of Micro Crystalline Cellulose (MCC), widely used in pharmaceutical, food, beverage, cosmetic and paint industry.

In the years 2009 and 2011, the promoters incorporated 'Sigachi Plasticisers Private Limited (Jhagadia)' and 'Sigachi Cellulos Private Limited (Dahej)' in Bharuch, Gujarat respectively, in order to meet the rising industry demand for MCC, however come 2013, the aforementioned companies amalgamated with SIPL resulting in an aggregate installed capacity of 7,680 MTPA (as on January 05th, 2018).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	74.17	81.73
PBILDT	10.02	9.78
PAT	3.45	2.81
Overall gearing (times)	1.35	1.43
Interest coverage (times)	2.55	2.26

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. Investors/market intermediaries/regulators or others are welcome to write to 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	-	-	-	10.00	CARE BBB-; Stable

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-Cash Credit	LT	10.00	CARE BBB-; Stable	-	-	-	-

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