Sigachi Industries Private Limited

September 06, 2018

Rating

Facility	Amount (Rs. crore)	Ratings *	Rating Action
Long-term Bank Facilities	28.95 (Enhanced from 28.21)	**CARE BBB-; Stable (Triple B Minus; Outlook Stable)**	**Reaffirmed**
Short-term Bank Facilities	2.75 (Reduced from 6.75)	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**31.70 (Rupees Thirty One Crore and Seventy Lakhs 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) continue to derive its strengths from qualified promoters with extensive experience in chemical industry, location advantage of the business divisions, globally compliant manufacturing standards, diversified MCC product portfolio, and established supplier and customer base. The ratings also take into account increasing total operating income and profitability margins along with improved capital structure and debt coverage indicators in FY18 (refers to period April 01 to March 31). The rating, however, continue to be tempered 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.

Going forward, 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 Prakash Tripathi (Director-Dahej Unit), Mr. Vijay Bhaskar (Director-Jhagadia Unit) and Mr. Swami Das Nigam (Director).

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. 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.

Location advantage

With three units located across Gujarat and Telangana, SIPL has an aggregate installed capacity of 9000 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). 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. 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) that aims to develop the quality of existing products and also new molecules in other segments.

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 premium price 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. Further, SIPL employs 25 staffers in their R & D wing, who are qualified Masters or Doctorates, mostly in Chemical field. Over the years, the company had developed 36 grades of MCC to cater various end products.

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 procures all 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 and profitability margins

The total operating income (TOI) of the company has increased from Rs. 81.73 crore in FY17 to Rs. 102.98 crore in FY18 owing to increase in capacity utilization on account of increased orders received from existing and new customers in non-cyclical end markets.

The PBILDT margins of the company has increased from 11.97% in FY17 to 14.12% in FY18 at the back of increase in sale of the brands AceCel™ and HiCel™ which fetch the company higher profit margins. The aforementioned brands contributed ~88% of the revenue in FY18 when compared to ~80% in FY17.

The PAT margin has also improved from 3.03% in FY17 to 6.21% in FY18 due to increase in PBILDT levels and decrease in interest expenses owing to scheduled repayment of long term debt.

Comfortable capital structure and satisfactory debt coverage indicators

The capital structure of the company improved and stood comfortable in FY18. The debt equity ratio and overall gearing improved from 0.29x and 1.43x respectively as on March 31, 2017 to 0.19x and 1.08x respectively as on March 31, 2018 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 in order to manage day to day operations.

The debt coverage indicators improved and stood satisfactory in FY18. Interest coverage ratio and TD/GCA improved from 2.26x and 6.86x respectively in FY17 to 3.95x and 3.54x respectively in FY18 on account of increase in PBILDT levels and decrease in total debt which subsequently led to decrease in interest expenses.

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 100% to the total sales of the company in FY18 as against 97% in FY18.

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.

Modest scale of operations with high working capital intensity

With total operating income at Rs. 102.98 crore in FY18, SIPL is considered to be a moderately sized entity. Also, the company's net worth as on March 31, 2018 stood at Rs. 26.39 crore.

The operations of SIPL remained working capital intensive in nature marked by an operating cycle of 91 days in FY18 as against 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 60 days to its customers on account of their long standing relationship. The company avails an average credit period of 30-60 days from its suppliers. Due to the aforesaid mentioned factors, the company relies on working capital borrowings to fund day to day operations. The working capital utilization of the company remained at 78% on an average for the last twelve months ended July 31, 2018.
Analytical Approach: Standalone

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

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 9000 MTPA (as on March 31, 2018).

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	81.73	102.98
PBILDT	9.78	14.55
PAT	2.48	6.39
Overall gearing (times)	1.43	1.08
Interest coverage (times)	2.26	3.95

A-Audited
Status of non-cooperation with previous CRA: Brickwork Ratings and ICRA have conducted the review on the basis of best available information and have classified Sigachi Industries Private Limited as "Issuer Not Cooperating" vide its press release dated May 26, 2017 and July 13, 2018 respectively.

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	-	-	-	14.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	2021	3.95	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	0.75	CARE A3
Fund-based - LT-EPC/PSC	-	-	-	11.00	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 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	14.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (16-Feb-18) 2)CARE BBB-; Stable (07-Feb-18)	-	-
2.	Fund-based - LT-Term Loan	LT	3.95	CARE BBB-; Stable	-	1)CARE BBB-; Stable (16-Feb-18)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A3	-	1)CARE A3 (16-Feb-18)	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.75	CARE A3	-	1)CARE A3 (16-Feb-18)	-	-
5.	Fund-based - LT-EPC/PSC	LT	11.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (16-Feb-18)	-	-

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