Sigachi Industries Private Limited

December 17, 2019

Rating

Facility	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	30.03 (Enhanced from 28.95)	**CARE BBB; Stable (Triple B; Outlook Stable)**	**Revised from CARE BBB-; Positive (Triple B Minus; Outlook Positive)**
Short-term Bank Facilities	6.00 (Enhanced from 2.75)	**CARE A3+ (A Three Plus)**	**Revised from CARE A3 (A Three)**
Total Facilities	**36.03 (Rupees Thirty Six Crore and Three Lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Sigachi Industries Private Limited (SIPL) takes into account increasing total operating income and profitability margins along with improved capital structure and debt coverage indicators in FY19 (refers to period April 01 to March 31). The ratings 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 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.

Rating Sensitivities

Positive Factors

- Increase in scale of operations marked by total operating income by more than 20%
- Decrease in debt levels
- Improvement in profit levels or gross cash accruals on a sustained basis

Negative Factors

- Decline in profitability margin as marked by PBILDT margin below 15%
- Deterioration in capital structure as marked by overall gearing ratio beyond 1.50x
- Deterioration of cash flow from operations and elongation of working capital cycle

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. Vijay Bhaskar (Director-Jhagadia Unit) and Mr. Swami Das Nigam (Director). Mr. Rabindra Prasad Sinha has more than three decades of experience in the chemical industry. In the past, he has worked with Reliance Cellullos Products Limited (Andhra Pradesh).

Location advantage

With three units located across Gujarat and Telangana, SIPL has an aggregate installed capacity of 10,000 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).

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.

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.

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

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 100% 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.

Healthy growth in total operating income and profitability margins
The total operating income (TOI) of the company has increased by 26% from Rs. 104.99 crore in FY18 to Rs. 131.80 crore in FY19 owing to higher sales volumes and improved sales realisations of MCC.
The PBILDT margins of the company has increased from 14.79% in FY18 to 23.35% in FY19 at the back of increase in sale of the brands AceCel™ and HiCel™ which fetch the company higher profit margins. The aforementioned brands contributed ~96% of the revenue in FY19 when compared to ~88% in FY18. Apart, the consumption of raw materials reduced due to procurement of raw materials at competitive prices from various suppliers which has resulted in increase in yields. Furthermore, the company has adopted cost effective measures which has helped to reduce the overhead expenses during FY19.
The PAT margin has also improved from 7.37% in FY18 to 14.93% in FY19 due to increase in PBILDT levels and decrease in interest expenses owing to scheduled repayment of long term debt.

Improved capital structure and debt coverage indicators
The capital structure of the company improved and stood comfortable as on 31st March 2019. The debt equity ratio and overall gearing improved from 0.20x and 1.06x respectively as on March 31, 2018 to 0.07x and 0.51x respectively as on March 31, 2019 owing to scheduled repayment of long term debt and lower outstanding balance of working capital borrowings as on account closing date coupled with increasing networth due to year-on-year accretion of profits.
The debt coverage indicators improved and stood comfortable in FY19. Interest coverage ratio significantly improved from 4.20x in FY18 to 9.26x in FY19 on account of increase in PBILDT levels and 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. 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.

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 which is imported from Hong Kong, USA, Switzerland, Canada, etc. 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. Nevertheless, the foreign exchange earnings are higher than foreign exchange expenses as the company has natural hedging. In FY19, the company reported a foreign exchange gain of Rs. 0.41 crore as against Rs. 0.86 crore in FY18.

Modest scale of operations with high working capital intensity
With total operating income at Rs. 131.80 crore in FY19 (Rs. 104.99 crore in FY18), SIPL is considered to be a moderately sized entity. Also, the company's net worth as on March 31, 2019 stood at Rs. 46.14 crore.
The operations of SIPL remained working capital intensive in nature marked by an operating cycle of 104 days in FY19 as against 92 days in FY18. 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 60-75 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 as well as internal accruals to fund day to day operations.
Liquidity- Adequate
Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs. 2.01 crore. Its capex requirements are modular and expected to be funded using debt of Rs. 3.50 crore for which it has sufficient headroom. Its bank limits are utilized to the extent of 53% supported by above unity current ratio.

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 10,000 MTPA (as on March 31, 2019).

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	104.99	131.80
PBILDT	15.53	30.77
PAT	7.74	19.68
Overall gearing (times)	0.20	0.07
Interest coverage (times)	4.20	9.26

A-Audited

Status of non-cooperation with previous CRA: Nil

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-Cash Credit	-	-	-	12.00	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	Jun 2020	1.78	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A3+
Non-fund-based - LT-Bank Guarantees	-	-	-	0.75	CARE BBB; Stable
Fund-based - LT-EPC/PSC	-	-	-	7.00	CARE BBB; Stable
Fund-based - LT-FBN / FBP	-	-	-	5.00	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	2025	3.50	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	12.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)	1)CARE BBB-; Stable (16-Feb-18) 2)CARE BBB-; Stable (07-Feb-18)	-
2.	Fund-based - LT-Term Loan	LT	1.78	CARE BBB; Stable	-	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)	1)CARE BBB-; Stable (16-Feb-18)	-
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A3+	-	1)CARE A3 (06-Sep-18) 2)CARE A3 (06-Sep-18)	1)CARE A3 (16-Feb-18)	-
4.	Non-fund-based - LT-Bank Guarantees	LT	0.75	CARE BBB; Stable	-	1)CARE A3 (06-Sep-18) 2)CARE A3 (06-Sep-18)	1)CARE A3 (16-Feb-18)	-
5.	Fund-based - LT-EPC/PSC	LT	7.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (06-Sep-18) 2)CARE BBB-; Stable (06-Sep-18)	1)CARE BBB-; Stable (16-Feb-18)	-
6.	Fund-based - LT-FBN / FBP	LT	5.00	CARE BBB; Stable	-	-	-	-
7.	Fund-based - LT-Term Loan	LT	3.50	CARE BBB; Stable	-	-	-	-

***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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