March 14, 2017

Sigachi Industries Pvt. Ltd.

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	28.68	[ICRA]BB+ (Stable)Assigned
Non Fund Based Limits	10.75	[ICRA]A4+ Assigned
Unallocated Amount	0.57	[ICRA]BB+(Stable)/[ICRA]A4+ Assigned
Total	**40.00**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the long term rating of [ICRA]BB+ (pronounced as ICRA double B plus)[1] to Rs. 28.68 crore[2] fund based limits of Sigachi Industries Private Limited (SIPL). ICRA has also assigned the short term rating of [ICRA]A4+ (pronounced ICRA A four plus) to Rs 10.75 crore non fund based limits and assigned ratings of [ICRA]BB+/[ICRA]A4+ to Rs 0.57 crore unallocated limits of SIPL. The outlook on long term rating is 'stable'.

Rationale

The assigned ratings positively factors in the long standing experience of promoters of over two decades in the excipient manufacturing industry with SIPL being one of the leading manufacturers of microcrystalline cellulose (MCC) in India; and strong growth in operating income at a CAGR of 27% from Rs 22.10 crore in FY2011 to Rs 73.77 crore in FY2016 with increase in capacity utilization levels on account of increase in orders. The ratings also factor in established relations with key suppliers enabling procurement of raw material at competitive prices and reputed client base including leading pharmaceutical players in the domestic market

The ratings are, however, constrained by stretched liquidity position as reflected by high utilization of cash credit limits in the past 12 months owing to high inventory levels coupled with high receivables. The ratings are also constrained by exposure of profitability to foreign exchange fluctuations as exports contribute to 53% of FY2016 sales and to the volatility in raw material prices; and moderate capital structure with gearing of 1.33 times and high TOL/TNW of 2.14 times as on March 31st, 2016. Further, significant competition from unorganized players in the market would put pressure on margins; and moderate operating margins in the range of 11-13% levels over the last three years

Going forward, ability of the company to improve its revenues and maintain the profitability levels while managing working capital requirements would remain key rating sensitivities from credit perspective.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

ICRA

Key rating drivers

Credit Strengths
- Long standing experience of the promoters for over two decades in the excipient manufacturing industry
- Established relations with key suppliers enabling procurement of raw material at competitive prices
- Reputed client base including leading pharmaceutical players in the domestic market
- Strong growth in operating income at a CAGR of 27.26% from Rs 22.10 crore in FY2011 to Rs 73.77 crore in FY2016 owing to increase in capacity utilization levels on account of increase in orders

Credit Weakness
- Stretched liquidity position as reflected by high utilization of cash credit limits in the past 12 months owing to high inventory levels coupled with high receivables
- Pressure on margins with significant competition from unorganized players in the market ; moderate operating margins in the range of 11-13% levels over the last three years
- Profitability indicators remain vulnerable to fluctuation and availability of key input material prices along with foreign exchange fluctuations as exports comprise a significant portion of the sales
- Moderate capital structure with gearing of 1.33 times and high TOL/TNW of 2.14 times as on March 31st, 2016.

Description of key rating drivers highlighted above:

The promoters have significant experience in the manufacturing of excipients for more than two decades and the company is one of the early entrants in the manufacturing of Micro Crystalline Cellulose Powder (MCCP) since 1995 and currently is one of the leading manufacturers of MCCP in India with an installed capacity of 7800MTPA. The revenues have grown strongly from Rs 27.26 crore in FY2011 to Rs 73.77 crore in FY2016 with increase in capacity utilization levels on account of increase in orders. SIPL has established relations with key suppliers enabling procurement of raw material at competitive prices. Further, the company has a reputed client base including leading domestic pharmaceutical companies like Dr. Reddy Laboratories Limited and export sales contributes to more than 50% of total sales with company exporting to Australia, USA, Germany, Poland, etc

The operating income has been moderate over the years due to presence in niche product segment. The operations are exposed to foreign exchange fluctuations as exports comprise a significant portion of the sales however, imports acts as natural hedge to an extent and the coverage of imports is around 70-80% of exports over the years and the company faces competition from unorganized players which put pressure on margins. The liquidity position of the company is tight as reflected by high utilization of working capital fund limits however the enhancement of limits in December 2016 would improve the liquidity position as the fund based limits increased from Rs 17.30 crore to Rs 21.00 crore and non fund based limits increased from Rs 7.20 crore to Rs 10.75 crore. The capital structure of the company is moderate with gearing of 1.33 times as on March 31, 2016 with debt comprising working capital borrowings and term loans and TOL/TNW is high at 2.14 times as on March 31, 2016

Analytical approach:

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology
<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

ICRA Rating Methodology – Pharmaceutical Companies
< http://www.icra.in/Files/Articles/Pharma-Methodology-Finalised.pdf >

About the Company:
Sigachi Industries Private Limited (SIPL) was incorporated in 1989 as Sigachi Chlorochemicals Private Limited to manufacture Chlorinated paraffin (CP). Later, the name was changed to SIPL in 2010. From 1995, the company started manufacturing of Microcrystalline Cellulose Powder (MCCP) which is used in pharmaceutical and food products industry as an excipient. MCCP is primarily used as an excipient (binder/ filler) in the pharmaceutical industry. SIPL also undertakes Operations and Maintenance of two plants of Gujarat Alkalies & Chemicals Limited. MCCP is the major product and it contributes to more than 90% of the total revenues over the years.

The company has three manufacturing facilities located at Hyderabad, Dahej (Gujarat) and Jhagadia (Gujarat) with total installed plant capacity of 7980 MTPA in which the installed capacity for MCCP is 7800 MTPA whereas the remaining capacity is used for manufacturing CP and other products.

SIPL recorded a net profit of Rs. 3.45 crore on an operating income of Rs. 73.77 crore for the year ending March 31, 2016 and recorded a net profit of Rs 3.22 crore on an operating income of Rs 52.09 crore for 8 months ending November 30, 2016 (Provisional and Unaudited)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				March 2017			
1	Cash Credit	Long Term	10.00	[ICRA]BB+(Stable)	NA	NA	NA
2	Packing Credit	Long Term	11.00	[ICRA]BB+(Stable)	NA	NA	NA
3	Term Loans	Long Term	7.68	[ICRA]BB+(Stable)	NA	NA	NA
4	Bank Guarantee	Short Term	0.75	[ICRA]A4+	NA	NA	NA
5	Letter of Credit	Short Term	10.00	[ICRA]A4+	NA	NA	NA
6	Unallocated	Long Term/ Short Term	0.57	[ICRA]BB+(Stable)/ [ICRA]A4+	NA	NA	NA

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	10.00	[ICRA]BB+(Stable)
Packing Credit	-	-	-	11.00	[ICRA]BB+(Stable)
Term Loan 1	-		March 2017	0.06	[ICRA]BB+(Stable)
Term Loan 2	-		March 2020	3.38	[ICRA]BB+(Stable)
Term Loan 3	-		March 2020	0.85	[ICRA]BB+(Stable)
Term Loan 4	-		March 2021	1.28	[ICRA]BB+(Stable)
Term Loan 5	-		June 2017	0.21	[ICRA]BB+(Stable)
Term Loan 6	Dec-16		March 2020	1.90	[ICRA]BB+(Stable)
Bank Guarantee	-	-	-	0.75	[ICRA]A4+
Letter of Credit	-	-	-	10.00	[ICRA]A4+
Unallocated Amount	-	-	-	0.57	[ICRA]BB+(Stable)/ [ICRA]A4+

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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