

Sodium Metal Private Limited

Instrument	Amount Rated	Rating Action
Cash Credit	Rs. 7.50 crore	Upgraded to [ICRA]BBB(Stable) from [ICRA] BBB-(Stable)
Letter of Credit	Rs. 4.00 crore	Upgraded to [ICRA]A3+ from [ICRA]A3
Bank Guarantee	Rs. 0.25 crore	Upgraded to [ICRA]A3+ from [ICRA]A3
PC cum FBP/FBD	Rs. (1.50)* crore	Upgraded to [ICRA]BBB(Stable)/A3+ from [ICRA]BBB-(Stable)A3
Inland bill purchase/discount	Rs. (1.00)* crore	Upgraded to [ICRA]BBB(Stable)/A3+ from [ICRA]BBB-(Stable)A3
Inland/Foreign LC	Rs. (4.00)* crore	Upgraded to [ICRA]BBB(Stable)/A3+ from [ICRA]BBB-(Stable)A3

**sublimit to cash credit*

ICRA has upgraded the long term rating assigned to the Rs. 11.75 crore bank facilities of Sodium Metal Private Limited (SMPL)¹ from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BBB(pronounced ICRA triple B). The outlook assigned on the long-term rating is 'Stable'. ICRA has also upgraded the short term rating assigned to the Rs. 4.25 crore short-term non-fund based facilities of SMPL from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A3+ (pronounced ICRA A three plus). ICRA has also upgraded the long term and the short term rating of [ICRA]BBB-(Stable)/A3 to Rs. 6.50 crore (enhanced from Rs. 2.50 crore) long term and short term fund based limits (sublimit to cash credit facility) of SMPL.

The ratings upgrade take into account the continuous improvement in the financial risk profile reflected by significant improvement in profitability, capital structure and the coverage indicators over past 4 years coupled with healthy annual accretions to reserves. The ratings continue to take comfort from the long experience of the promoters, spanning over one and half decade in manufacturing of drug intermediates / specialty chemicals; favourable market position of the company as a manufacturer of 2-Acetyl-6-Methoxy Naphthalene in India; established customer base; and strong relationship with the primary customer- Dr. Reddy Laboratories Limited (DRL).

The ratings, however, are constrained by the limited product diversification, with 2-Acetyl-6-Methoxy naphthalene contributing more than 60% of the revenue, coupled with high customer concentration with ~61% of sales in FY2015 derived from Dr. Reddy Laboratories Limited. The ratings are further constrained by the vulnerability of profitability to raw material price fluctuations and company's limited ability to pass on the same coupled with pricing pressure that may arise from imports. Further, the ratings also factors in the exposure of profitability to foreign exchange risks, with ~43% of raw materials being imported in FY2016, although it is partially mitigated owing to hedging mechanism.

Considering the optimal capacity utilisation, the ability of the company to enhance its product portfolio, add new customers and align capex to further enhance capacity will remain the key monitorable. The profitability indicators and other indicators are likely to remain healthy.

Company Profile

Incorporated in 1971, Sodium Metal Private Limited (SMPL) initially manufactured sodium metal and nuclear grade liquid sodium metal. The regulatory changes in 1996 made the business unprofitable and after a period of sustained operating losses, the company transitioned into production of drug intermediates. For the past sixteen years, the company has been manufacturing drug intermediates, fine and specialty chemicals for the pharmaceutical and perfume industries. SMPL's registered office and manufacturing facility are located at GIDC Nandesari, Baroda. The company is closely managed by the Kapasi family, with Mr. Ketan Kapasi being the managing director of the company.

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



Recent Results

During FY 2016, Sodium Metal Private Limited reported an operating income of Rs. 115.20 crore and profit after tax of Rs. 15.58 crore as against an operating income Rs. 110.98 crore and profit after tax of Rs. 13.03 crore in FY 2015.

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