

Sai Sulphonates Private Limited

March 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	10.28	4.05	[ICRA]A- (Stable) Reaffirmed
Cash credit	56.00	56.00	[ICRA]A- (Stable) Reaffirmed
Unallocated Limits	10.56	-	-
Long-term/Short-term interchangeable limits*	(36.50)	(35.50)	[ICRA]A- (Stable) and [ICRA]A2+ Reaffirmed
Total	76.84	60.05	

*sub-limits of cash credit facility

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A- (pronounced ICRA A minus) of the Rs. 4.05-crore¹ (revised from Rs. 10.28 crore) term loans and Rs. 56.00-crore cash-credit limits of Sai Sulphonates Private Limited (SSPL)¹. ICRA has also reaffirmed the long-term and short-term ratings of [ICRA]A- (Stable)/[ICRA]A2+ for the Rs. 35.50-crore (revised from Rs. 36.50 crore) long-term/short-term interchangeable limits of the company. The outlook on the long-term rating is Stable. The long-term/short-term interchangeable limits are sub limits of the long-term cash credit facility.

Rationale

While arriving at the ratings, ICRA has considered the business risk profile of SSPL along with its Group companies A.R. Stanchem Private Limited (ARSPL) and Sai Fertilisers Private Limited (SFPL), which are collectively a part of the “Fogla Group”, since there are strong operational, financial and managerial linkages among the companies.

The ratings upgrade takes into account the increasing scale of the company’s operations with higher production and sales volume for linear alkyl benzene sulphononic acid (LABSA, 90% concentrate and 96% concentrate) and its improved financial risk profile in FY2017, as reflected by its lower gearing and improved debt-coverage indicators. This is due to lower debt levels, lower interest costs and higher cash accruals. The ratings continue to derive comfort from the significant experience of the promoters of over two decades in the surfactants business, leading to a strong market presence in eastern India and SSPL’s strong customer profile, which reduces counterparty risks and provides stability to its margins. ICRA also draws comfort from SSPL’s established relations with its supplier of linear alkyl benzene (LAB) and the flexible payment terms with them, which reduces its overall working capital requirement and supports its liquidity position. ICRA notes that, going forward, the management’s plan to start a new sulphuric acid manufacturing facility with an installed capacity of 90000MT is likely to increase the company’s presence in the sulphuric acid segment as well.

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

The ratings are, however, constrained by SSPL's exposure to high client concentration risks with a single client- Hindustan Unilever Limited, accounting for around 95% of its total LABSA sales, thus indicating that continuation of such a relationship would be critical for sustaining its operations. The ratings also take into account SSPL's low bargaining power with suppliers and customers, which are characterised by large scale of operations and the highly fragmented nature of the domestic surfactants industry with low entry barriers, leading to intense competition and restricting the pricing flexibility. Further, availability of alternative surfactants such as LAS, AOS and FAS² may pose threat over the long-term.

Outlook: Stable

ICRA believes SSPL would grow its operations through a further increase in production and sales volume of LABSA (90% concentrate and 96% concentrate) and increase its scale of operations for sulphuric acid through addition of more capacities which would lead to higher turnover and improved profits. The outlook may be revised to 'Positive' if more-than-expected growth in revenue and profitability, and efficient working-capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if time and cost overruns on the establishment of sulphuric acid plant adversely impact the profitability and if cash accruals are lower than expected or a stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Extensive track record of the promoters with a strong presence in eastern India - The Group is involved in the business of surfactants for over two decades and the company is among the largest suppliers of LABSA in the non-captive segment. SSPL is also estimated to have the largest market share for LABSA in eastern India with major supplies to Hindustan Unilever Limited (HUL).

Strong customer profile reduces counterparty risks and provides stability to margins - SSPL has an established relationship with HUL since 1987. The fact that SSPL supplies a significant portion of HUL's requirement reflects its technical strength and its established relationship with the customer provides stability to its revenues and profitability.

Robust growth in the production and sales volume of LABSA in FY2017, addition of new facility for sulphuric acid likely to support SSPL's market presence - SSPL has reported robust growth in its production and sales volume of LABSA (90% concentrate) and LABSA (96% concentrate) in FY2017 on the back of improved demand from its customers. The company manufactured 49539 MT of LABSA (90% concentrate) and 5885 MT of LABSA (96% concentrate) in FY2017. Going forward, ICRA expects higher utilisation of its installed capacities based on improved demand from existing customers and addition of new customer for manufacturing LABSA (96% concentrate). ICRA notes that the production of sulphuric acid remained high at 83144 MT in FY2017 with its current utilisation at 92% of the installed capacity. Thus addition of the new facility with a capacity of 90000MT per annum is likely to further improve SSPL's market presence in the sulphuric acid segment as well.

Improvement in the debt-coverage indicators due to lower debt levels, lower interest costs and improved cash accruals - The debt-coverage indicators of the company has improved in FY2017 on account of lower debt levels due to high creditor funding and regular repayment of term loans. The low debt levels also result in lower interest costs for SSPL in FY2017, which along with high foreign-currency fluctuation gains resulted in high cash accruals in FY2017.

² LAS: Linear Alkyl Sulphonate; AOS: Alpha Olein Sulphonate; FAS: Fatty Alcohol Sulphonate

Established relationship and flexible payment terms with its supplier of LAB supports the liquidity position - Since LAB production is a capital-intensive business, the industry is dominated by large producers, which have higher bargaining power than LABSA players in determining LAB prices. However, as the Fogla Group has considerable LAB requirement, the company either procures from large suppliers within the domestic market at the rates negotiated by HUL or relies upon imports from the Middle East to meet a part of its LAB requirements. Given the established relations with its supplier based in the Middle East, SSPL receives an open credit of 90-120 days from them against purchase of LAB, which also supports its overall working capital requirement.

Credit challenges

High client concentration risks with a single client accounting for over 95% of total LABSA sales - SSPL continues to have high customer concentration with HUL contributing to over 95% of its revenues. The other customers of the company comprise small regional-level detergent manufacturers.

High fragmentation in the LABSA industry with a large number of small players, resulting in low profit margins - LABSA is the main raw material used in the synthetic detergent industries to produce household detergent powder, detergent cakes, liquid soap etc. It is also used as a cleaner in numerous industrial applications. LABSA is consumed in the form of either LABSA-90% (i.e. LABSA with 90% concentration) or LABSA-96% (LABSA with 96% concentration). The production of LABSA-90% is not a technologically-intensive process. This, coupled with the relatively lower capital intensity, resulted in a number of small to medium-scale players having capacity to produce LABSA-90%. The margins of LABSA producers remain low due to lower value addition and the highly fragmented nature of the industry. The entry barriers are relatively higher in production of LABSA with 96% concentration, as it is mainly based on technology available from the international suppliers and hence the competition is limited.

Low bargaining power with suppliers and customers characterised by large scale of operations - The bargaining power of SSPL with its suppliers and customers is low due to their large scale of operations and the ability of the customer to switch to other suppliers given the commoditised nature of product. However, ICRA notes that the reliance on SSPL is very high for HUL's plants located in eastern India and so any switching would be a time and cost-consuming affair.

Availability of alternative surfactants such as LAS, AOS, and FAS may pose threat over the long term - ICRA notes that the availability and usage of alternative surfactants such as LAS, AOS and FAS also poses a threat on the usage of LABSA in the manufacturing of synthetic detergents.

Analytical approach: For arriving at the ratings, ICRA has considered the business risk profile of SSPL along with its Group companies A.R. Stanchem Private Limited (ARSPL) and Sai Fertilisers Private Limited (SFPL), collectively a part of the "Fogla Group", since there are strong operational, financial and managerial linkages among the companies.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)
[Rating Methodology for Entities in the Chemical Industry](#)

About the company:

Incorporated in 1987, SSPL manufactures LABSA at its facility at Kharagpur, West Bengal. The company has an installed annual capacity to manufacture around 75,000 MT of LABSA (90% concentrate) and ~36,000 MT of LABSA (96% concentrate). It also has a sulphuric acid manufacturing plant with an annual capacity of 90,000 MT, along with a captive power plant (CPP) of 3 MW, established in 2012-2013. While the LABSA (96% concentrate) plant has been launched in July, 2014, the manufacturing facilities for LABSA (90% concentrate) had been shifted to Kharagpur from Ulberia in FY2015.

Key financial indicators

	FY2016	FY2017	H1 FY2018 (Provisional)
Operating Income (Rs. crore)	448.45	535.70	283.53
PAT (Rs. crore)	14.98	13.76	12.24*
OPBDIT/ OI (%)	6.09%	4.22%	7.15%
RoCE (%)	25.22%	22.17%	31.71%
Total Debt/ TNW (times)	0.65	0.56	0.27
Total Debt/ OPBDIT (times)	1.40	1.78	1.14
Interest Coverage (times)	4.44	6.68	22.59
NWC/ OI (%)	2.34%	1.35%	4.67%

*assuming tax @30% on PBT

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	As on March 31, 2017 (Rs. crore)	Amount Outstanding	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				March 2018	January 2018	December 2016	September 2015		
1	Term loans	4.05	8.07		[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-
2	Cash credit	56.00	-		[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-
3	Long-term/Short-term interchangeable limits*	35.50	-		[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2	-

*Rs. 35.50 crore interchangeable limits are the sub limits of the cash credit facility

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	8.04.2015		FY2020	4.05	[ICRA]A- (Stable)
NA	Cash credit	-	NA	-	56.00	[ICRA]A- (Stable)
NA	Long-term and Short-term interchangeable limits	-	NA	-	35.50	[ICRA]A- (Stable)/[ICRA]A2+

Source: Sai Sulphonates Private Limited

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