

## Siddharth Carbochem Products Limited

November 15, 2018

### Summary of rated instruments

| Instrument*                         | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                  |
|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Long-term: Fund based – Cash Credit | 4.94                                 | 4.94                                | [ICRA]BB+ (Stable); Reaffirmed |
| Short-term: Non-fund based limits   | 38.06                                | 38.06                               | [ICRA]A4+; Reaffirmed          |
| <b>Total</b>                        | <b>43.00</b>                         | <b>43.00</b>                        |                                |

\*Instrument Details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) for the Rs. 4.94-crore<sup>1</sup> cash credit facility and the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) for the Rs. 38.06-crore non-fund based facility of Siddharth Carbochem Products Limited (SCPL / the company)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The reaffirmation of the ratings takes into account improved profitability in FY2018; extensive experience of the promoters and established track record of the company in the chemical business; and its diversified and reputed customer base. ICRA notes the recent commissioning of new methyl salicylate plant and strict environment regulations adopted by China coupled with rising US tariffs on Chinese goods will facilitate revenues growth going forward.

The ratings, however, continue to remain constrained by SCPL's modest financial profile characterized by low profitability margins, moderate capital structure, weak debt coverage indicators and high working capital intensity due to stretched receivables and higher inventory holding period. The ratings are also constrained by the susceptibility of the company's profitability and cash flows to adverse fluctuations in prices of raw materials and volatility in exchange rates, given its high dependence on imports and stiff competition from other salicylate manufacturers.

### Outlook: Stable

ICRA believes SCPL will continue to benefit from the extensive experience of its promoters and stable demand for its major products. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability supported by introduction of new products and improvement in the coverage indicators is witnessed. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

## Key rating drivers

### Credit strengths

**Extensive experience and established track record in chemical business** – SCPL is engaged in manufacturing and trading of specialty chemicals and bulk drugs over the past three decades. SCPL's operations are overseen by managing director Mr. Ashesh Jain, who has been involved in the chemical industry for the past 30 years.

**Diversified customer base and established position in the key product segments viz Methyl Salicylate and salicylic acid** – SCPL is among the major manufacturers of Methyl Salicylate and Salicylic Acid in India which contributed 55% and 14% respectively to the total revenues in FY2018. The company's client base remains diversified with the top five customers accounting for 24% of total sales in FY2018, and includes both pharmaceutical majors as well as entities in the FMCG & fragrance industry segments. The company has received REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) registration in current fiscal which enables it access to European markets.

**New methyl salicylate plant to boost capacity utilization, curbs on Chinese products due to stricter environment regulations** – Recent commissioning of the new methyl salicylate plant with enhanced capacity to manufacture 550 MT/month (compared to 300 MT/month previously) and rising production curbs on Chinese chemical suppliers due to strict environmental regulations and rising US tariffs on Chinese goods is expected to drive revenue growth and profitability going forward.

### Credit challenges

**Financial profile characterized by muted profitability and low cash accruals** – SCPL posted a revenue de-growth of ~18% in FY2018 due to lower sales volumes. China, with surplus capacity and cheaper products, continued to dump its products in the Indian markets thereby limiting the demand for Indian goods. The operating profit margins of the company have historically remained low due to high competition and low value addition, however it improved to 5.68% in FY2018 compared to 2.89% in FY2017 with SCPL's increased focus on quality clients.

**Moderate capital structure and weak debt coverage indicators; high working capital intensity** – The capital structure of the company remained moderate with a gearing of 1.23 times as on March 31, 2018 (1.39 times as on March 31, 2017). Coverage indicators, although improved over previous fiscal, remained weak as reflected by interest cover of 2.95 times in FY2018 (2.27 times in FY2017) and TD/OPBDITA of 4.27 times as on March 31, 2018 (6.80 times as on March 31, 2017) due to low profitability. The working capital intensity remained high with NWC/OI at 21% as on March 31, 2018 (17% as on March 31, 2017) due to stretched receivables and high inventory holding period. As per provisional financials for H1 FY2019, the capital structure improved to 0.69 times as on September 30, 2018 due to lower working capital borrowings led by higher utilization of non-fund based limits.

**Vulnerability of profitability raw material price fluctuations and currency fluctuations** - The raw materials form the major cost component for the bulk drugs and specialty chemical manufacturing companies constituting nearly 80-90% of the operating income. The major raw materials for SCPL are salicylic acid and methanol. The company also remains exposed to currency fluctuation risk on account of high proportion of import of raw material. However, exports to a certain extent provide natural hedge to the company.

**Exposure to stiff competition from other salicylate manufacturers-** The company deals in mature drugs/intermediates, wherein the profitability is limited and competition is higher. The company faces stiff competition from other domestic as well as global salicylate manufacturers, which limits its pricing power. Nonetheless, SCPL has a long-term relationship with its customers translating into numerous repeated order, which mitigates the competition risk to an extent.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

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

### About the company:

Established in 1984, SCPL is engaged in manufacture and trading of a range of specialty chemicals and bulk drugs. The company is promoted and managed by Mr. Ashesh Jain. The company currently markets three main products viz. Methyl Salicylate (various grades), Salicylic acid & Aspirin (acetyl salicylic acid) catering to the analgesic therapeutic segment, and the flavour & fragrance applications. The manufacturing facility of SCPL is located in Jalgaon, Maharashtra and is GMP (Good Manufacturing Practices) compliant, approved by FDA (US Food and Drug Administration) and ISO 9001, 14001 & 18001 accredited.

SCPL reported a Profit After Tax (PAT) of Rs. 2.14 crore on an operating income (OI) of Rs. 83.05 crore in FY2018 as compared to a PAT of Rs. 1.26 crore on an OI of Rs. 100.91 crore in FY2017. For H1 FY2019, the company has reported an OI of Rs. 61.04 crore and Profit Before Tax (PBT) of Rs. 2.60 crore, as per provisional estimates.

### Key financial indicators

|                              | FY2017<br>(Audited) | FY2018<br>(Audited) | H1 FY2019<br>(Provisional) |
|------------------------------|---------------------|---------------------|----------------------------|
| Operating Income (Rs. crore) | 100.91              | 83.05               | 61.04                      |
| PAT (Rs. crore)              | 1.26                | 2.14                | 2.60*                      |
| OPBDIT/ OI (%)               | 2.89%               | 5.68%               | 6.14%                      |
| RoCE (%)                     | 7.96%               | 11.75%              | 20.80%                     |
| Total Debt/ TNW (times)      | 1.39                | 1.23                | 0.69                       |
| Total Debt/ OPBDIT (times)   | 6.80                | 4.27                | 1.76                       |
| Interest Coverage (times)    | 2.27                | 2.95                | 3.79                       |

\* profit before tax

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

| Instrument |                  | Current Rating (FY2019) |                             |                                  | Chronology of Rating History for the past 3 years |                         |                         |                         |
|------------|------------------|-------------------------|-----------------------------|----------------------------------|---------------------------------------------------|-------------------------|-------------------------|-------------------------|
|            |                  | Type                    | Amount Rated<br>(Rs. crore) | Amount Outstanding<br>(Rs Crore) | Date & Rating                                     | Date & Rating in FY2018 | Date & Rating in FY2017 | Date & Rating in FY2016 |
|            |                  |                         |                             |                                  | Nov-18                                            | Feb-18                  | Oct-16                  | Jul-15                  |
| 1          | Cash Credit      | Long Term               | 4.94                        | -                                | [ICRA]BB+ (Stable)                                | [ICRA]BB+ (Stable)      | [ICRA]BB+ (Stable)      | [ICRA]BB+ (Stable)      |
| 2          | Letter of Credit | Short Term              | 38.06                       | -                                | [ICRA]A4+                                         | [ICRA]A4+               | [ICRA]A4+               | [ICRA]A4+               |

### 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](http://www.icra.in)

## Annexure-1: Instrument Details

| ISIN No | Instrument Name  | Date of Issuance /<br>Sanction | Coupon<br>Rate | Maturity<br>Date | Amount<br>Rated<br>(Rs. crore) | Current Rating and<br>Outlook |
|---------|------------------|--------------------------------|----------------|------------------|--------------------------------|-------------------------------|
| NA      | Cash Credit      | NA                             | NA             | NA               | 4.94                           | [ICRA]BB+ (Stable)            |
| NA      | Letter of Credit | NA                             | NA             | NA               | 38.06                          | [ICRA]A4+                     |

Source: SCPL

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For more information, visit [www.icra.in](http://www.icra.in)

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