

August 06, 2015

| Facilities                         | Amount<br>(Rs. Crore) | Ratings                     |
|------------------------------------|-----------------------|-----------------------------|
| Cash Credit                        | 2.60                  | SMERA BB-/Stable (Assigned) |
| Foreign Bills Discounting          | 2.00                  | SMERA A4 (Assigned)         |
| Letter of Credit cum Buyers credit | 12.00                 | SMERA A4 (Assigned)         |
| Bank Guarantee                     | 1.84                  | SMERA A4 (Assigned)         |

SMERA has assigned a rating of '**SMERA BB-' (read as SMERA double B minus)** to the Rs.2.60 crore long-term bank facility and '**SMERA A4' (read as SMERA A four)** to the Rs.15.84 crore short-term bank facility of Satyam Pharma-Chem Private Limited (SPCPL). The outlook is '**Stable**'. The rating reflects the extensive experience of the promoters and the company's established relations with clients. The ratings also draw comfort from the expected revenue from the new factory unit. However, the ratings are constrained by the company's modest scale of operations and average financial risk profile. The ratings are also constrained by the susceptibility of the company's profit margins to raw material price volatility and forex rates.

SPCPL, incorporated in the year 1981, is a Mumbai- based company engaged in the manufacture of inorganic metal-based specialty chemicals. The company is headed by Mr. Navin Khokhani, and Mr. Samit Khokhani, Directors with decades of experience in the specialty chemical business. The company's customers include Reliance Industries Limited, Indian Oil Corporation, Kansai Nerolac Paints Limited among others. Lately, a new factory unit with an installed capacity of 2400 MTPA has been set up at Patalganga, Panvel to manufacture chromatography solvents for pharmaceutical use. The commercial operations of the unit are expected to commence from September 2015. SMERA believes that with the new factory unit, SPCPL will not only be able to diversify its product portfolio, but also enhance its customer base, revenues and realisation.

SPCPL has modest scale of operations with revenue of Rs.26.95 crore in FY2013-14 and high gearing (debt-equity) ratio of 3.31 as on March 31, 2014. The company's total debt stood at Rs.19.29 crore as on March 31, 2014 which included unsecured loans of Rs.6.04 crore from promoters. The company's moderate coverage indicators are reflected in the interest coverage ratio of 1.54 times and net cash accrual to total debt of 0.04 times in FY2013-14. The company's profit margins are highly susceptible to volatility in raw material (metal) prices. Raw material costs constitute ~72 per cent of the total cost of sales. SPCPL's profitability is also exposed to forex fluctuation risk in unhedged import purchases. The company's operating profit margin stood at 7.48 per cent in FY2013-14 as against 7.21 per cent in FY2012-13. The net profit margin stood at 1.30 per cent in FY2013-14 as against 1.51 per cent in FY2012-13. (Net profit is arrived at after considering interest income on fixed deposits).

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## Outlook: Stable

SMERA believes SPCPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving substantial improvement in profit margins, capital structure and coverage indicators. The outlook may be revised to 'Negative' in case the company reports lower-than-expected revenues and profit margins, or in case of deterioration in the company's capital structure.

## About the Company

SPCPL, incorporated in the year 1981 is a Mumbai-based company engaged in the manufacture of inorganic metal based specialty chemicals at Rabale, Navi Mumbai. The company's products include a range of acetates (salts of acetic acid), compounds of manganese, bismuth, selenium among others. Recently, SPCPL has set up a unit at Patalganga, near Karjat and Panvel to manufacture high grade chromatography solvents for the pharmaceutical industry.

SPCPL reported profit after tax (PAT) of Rs.0.35 crore on operating income of Rs.26.95 crore for FY2013-14, as compared with PAT of Rs.0.41 crore on operating income of Rs.27.14 crore in FY2012-13. The company has reported operating income of Rs.32.00 crore in FY2014-15. SPCPL's net worth stood at Rs.5.83 crore as on March 31, 2014, as compared with Rs.4.47 crore a year earlier.

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