

Press Release

Satyam Pharma-Chem Private Limited

January 18, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 29.14 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 29.14 crore bank facilities of Satyam Pharma-Chem Private Limited (SPPL). The outlook is '**Stable**'.

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

Analytical Approach

Acuité has considered the standalone financial and business risk profile of SPPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and healthy track record of operations**

Mr. Navin Khokhani (Director) has around four decades of experience in the specialty chemical business. He is well supported by his son, Mr. Samit Khokhani, who has over a decade of experience and Dr. Swamy (Director) who possesses over four decades of experience in the industry.

- **Reputed clientele**

The company has established long term relations with Reliance Industries Limited (25 years), Indian Oil Corporation (15 years) and others. This enables the company to benefit from repeat orders from its customers.

- **Healthy financial risk profile**

The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company is moderate at around Rs.12.13 crore as on 31 March, 2018 as against Rs.14.86 crore as on 31 March, 2017. The deterioration in net worth is on account of withdrawal of ~Rs.0.30 crore of unsecured loans which was considered as quasi equity, part of net worth in FY2017. The company has followed a conservative financial policy as reflected by peak gearing of 1.05 times over the last three years through FY 2017-18. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.74 times as on 31 March, 2018 as against 0.79 times as on 31 March, 2017.

The total debt of Rs.12.77 crore consists of long term debt of Rs.4.76 crore, unsecured loans from related parties of Rs. 5.14 crore and Rs.2.88 crore of short term debt obligations. The moderate revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 3.00 times in FY2018 and 2.74 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.31 times as on 31 March, 2018 as against 0.54 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.91 times for FY2018 as against 1.19 times in FY2017. Acuité believes that the financial risk profile of SCPL will continue to remain moderate over the medium term on account of its improving scale of operations and conservative financial policy.

• **Efficient working capital management**

The working capital management is marked by Gross Current Assets (GCA) of 81 days in FY2018 as against 89 days in FY2017. The company maintains inventory of around 40 days on an average and extends clean credit of around 30 days to its customers, resulting in efficient working capital management. The inventory and debtor levels stood at 44 days and 24 days in FY2018 as against 25 days and 40 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at ~50 percent in the last six months. Acuité believes that the firm's ability to maintain its working capital efficiently will remain a key to maintain a stable credit profile.

Weaknesses

• **Susceptibility of margins to fluctuations in raw material prices**

The major raw materials are manganese, cobalt, bismuth and lithium, the prices of which have registered a fluctuating trend in the last five years. Thus, the profitability of the company is susceptible to volatility in raw material prices.

• **Foreign exchange fluctuation risk**

The company imports metals from China which constitutes ~88 percent of total purchases while other chemicals such as acids are purchased locally. SPPL also exports ~20 percent of its sales to Brazil, Germany, and Finland. As a result, the company benefits from natural hedge for a part of its exposure. SPPL does not hedge its exposure.

Outlook: Stable

Acuité believes that the outlook on SPPL's rated facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	47.89	48.52	37.74
EBITDA	Rs. Cr.	7.00	5.74	4.87
PAT	Rs. Cr.	2.71	2.00	1.13
EBITDA Margin	(%)	14.61	11.84	12.91
PAT Margin	(%)	5.66	4.13	3.00
ROCE	(%)	25.76	27.93	17.75
Total Debt/Tangible Net Worth	Times	1.05	0.33	0.30
PBDIT/Interest	Times	3.00	2.74	2.12
Total Debt/PBDIT	Times	1.74	0.79	0.79
Gross Current Assets (Days)	Days	81	89	127

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Nov-2017	Cash Credit	Long Term	3.50	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	6.50	ACUITE BB / Stable (Assigned)
	Packing Credit	Short Term	2.60	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.84	ACUITE A4+ (Assigned)
	Proposed Short Term Loan	Short Term	0.70	ACUITE A4+ (Assigned)
20-Dec-2016	Cash Credit	Long Term	2.60	ACUITE BB- / Stable (Suspended)
	Bills Discounting	Short Term	2.00	ACUITE A4 (Suspended)
	Letter of Credit	Short Term	12.00	ACUITE A4 (Suspended)
	Bank Guarantee	Short Term	1.84	ACUITE A4 (Suspended)
06-Aug-2015	Cash Credit	Long Term	2.60	ACUITE BB- / Stable (Assigned)
	Bills Discounting	Short Term	2.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	1.84	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	30-Sep-2021	1.65	ACUITE BB / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	^2.60	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.84	ACUITE A4+ (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	5.55	ACUITE A4+ (Reaffirmed)

[^]sub limit is FDBP/FUDP up to Rs. 2.60 crore

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About Acuité Ratings & Research:

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