

## Press Release

### Satyam Pharma-Chem Private Limited

November 17, 2020

### Rating Reaffirmed



|                                     |   |
|-------------------------------------|---|
| <b>Total Bank Facilities Rated*</b> | Rs. 29.14 Cr.                             |
| <b>Long Term Rating</b>             | ACUITE BB/Outlook: Stable<br>(Reaffirmed) |
| <b>Short Term Rating</b>            | ACUITE A4+<br>(Reaffirmed)                |

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE Double B**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 29.14 crore bank facilities of Satyam Pharma Chem Private Limited (SPPL).

The rating factors in an established track record of operations, reputed client base and improvement in operating performance. However, the ratings are constrained by moderate scale of operations, debt protection metrics and modest capital structure. The ability of the company to improve the scale of operations, profitability and working capital management, will remain the key rating sensitivities.

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

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

### Key Rating Drivers

#### Strengths

- Experienced management and established 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. The company is supported by the second line of management. Acuite believes, the company will benefit from the established presence and experienced management over the medium term.

- Efficient working capital management and 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. The working capital management is marked by Gross Current Asset (GCA) days stood improved at 63 days as on March 31, 2020 (Provisional) as against 133 days as on March 31, 2019. The debtor's days stood at 31 days as on March 31, 2020 (Provisional) as against 48 days in FY2019. The inventory days has declined to 32 days as on March 31, 2020 (Provisional) as against 70 days in FY2019, due to restriction in movements of goods due to nationwide lockdown. The working capital limits are utilized low at 88.34 percent for six months ending September, 2020. Acuite believes that the firm's ability to maintain its working capital efficiently will remain a key driver to maintain a stable credit profile.

#### • Moderate financial risk profile

SPPL's financial risk profile stood moderate marked by moderate gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protection metrics. Gearing stood at 1.37 times as on March 31, 2020 (Provisional) as against 0.79 times as on 31 March, 2019. The Net worth of the company is moderate at Rs. 17.56 crore as on March 31, 2020 (Provisional) as against Rs. 13.95 crore as on 31 March, 2019. The improvement in net worth is on account of the retention of profits into the business. The total debt of Rs. 24.02 crore as on March 31, 2020 (Provisional) consist of long term debt of Rs.8.03 crore, short term debt of Rs. 7.81 crore and unsecured loan of Rs.8.18 crores. The interest coverage ratio stood at 3.57 times as on March 31, 2020 (Provisional) as against 2.67 times as on 31 March, 2019. The net cash accruals to total debt stood comfortable at 0.15 times in FY2020 (Provisional) and 0.29 times in the previous year. The Debt Service Coverage Ratio (DSCR) stood improved at 2.53 times as on March 31, 2020 (Provisional) as against 1.50 times as on 31 March, 2019.

#### 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 and slowdown in key markets

The company imports metals from China which constitutes ~80 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 a natural hedge for a part of its exposure. SPPL does not hedge its exposure. Also, due to pandemic, there is a slowdown in the global markets which will have an impact on operations in the near term.

#### Liquidity Position: Adequate

Liquidity of SPPL's is adequate marked by comfortable cash accruals of Rs.3.17 to 3.93 crores against repayment obligations of Rs. 0.40-1.82 crores during FY2018-2020. The accruals are expected to be in the range of 3.50 to 4.50 crores against repayment obligation of Rs.0.050 -1.50 crores during FY2021-23. The current ratio of the company stood low at 0.88 times as on March 31, 2020 (provisional) due to lower inventory and receivables due to the impact on sales in March 2020 due to Pandemic. It has unencumbered cash balances of Rs. 0.42 crore as on March 31, 2020 (Provisional).

#### Rating Sensitivities

- Sustaining existing business risk profile and profitability
- Working capital management
- Cyclical associated with end-user industry and maintaining adequate liquidity.

#### Outlook: Stable

Acuite 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    | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income              | Rs. Cr. | 42.74              | 36.35         |
| PAT                           | Rs. Cr. | 2.05               | 1.82          |
| PAT Margin                    | (%)     | 4.81               | 4.99          |
| Total Debt/Tangible Net Worth | Times   | 0.73               | 0.35          |
| PBDIT/Interest                | Times   | 3.57               | 2.67          |

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

None

**Any other information**

Not Any

**Any Material Covenants**

Not Any

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Upto last three years)**

| Date        | Name of Instrument / Facilities    | Term       | Amount (Rs. Cr.) | Ratings/Outlook                        |
|-------------|------------------------------------|------------|------------------|--|
| 08-Apr-2020 | Cash Credit                        | Long Term  | 3.50             | ACUITE BB<br>Issuer not co-operating*  |
|             | Term loans                         | Long Term  | 1.65             | ACUITE BB<br>Issuer not co-operating*  |
|             | PC/PCFC                            | Short Term | 2.60^            | ACUITE A4+<br>Issuer not co-operating* |
|             | Letter of credit                   | Short Term | 14.00            | ACUITE A4+<br>Issuer not co-operating* |
|             | Bank guarantee/Letter of Guarantee | Short Term | 1.84             | ACUITE A4+<br>Issuer not co-operating* |
|             | Proposed Short Term Loan           | Short Term | 5.55             | ACUITE A4+<br>Issuer not co-operating* |
| 18-Jan-2019 | Cash Credit                        | Long Term  | 3.50             | ACUITE BB / Stable<br>(Reaffirmed)     |
|             | Term loans                         | Long Term  | 1.65             | ACUITE BB / Stable<br>(Reaffirmed)     |
|             | PC/PCFC                            | Short Term | 2.60^            | ACUITE A4+<br>(Reaffirmed)             |
|             | Letter of credit                   | Short Term | 14.00            | ACUITE A4+<br>(Reaffirmed)             |
|             | Bank guarantee/Letter of Guarantee | Short Term | 1.84             | ACUITE A4+<br>(Reaffirmed)             |
|             | Proposed Short Term Loan           | Short Term | 5.55             | ACUITE A4+<br>(Reaffirmed)             |
| 23-Nov-2017 | Cash Credit                        | Long Term  | 3.50             | ACUITE BB/ Stable<br>(Assigned)        |
|             | Term Loan                          | Long Term  | 6.50             | ACUITE BB/ Stable<br>(Assigned)        |
|             | Packing Credit                     | Short Term | 2.60             | ACUITE A4+<br>(Assigned)               |
|             | Letter of Credit                   | Short Term | 14.00            | ACUITE A4+                             |

|  |                          |            |      |                          |
|--|--------------------------|------------|------|--------------------------|
|  |                          |            |      | (Assigned)               |
|  | Bank Guarantee           | Short Term | 1.84 | ACUITE A4+<br>(Assigned) |
|  | Proposed Short Term Loan | Short Term | 0.70 | ACUITE A4+<br>(Assigned) |

Asub limit is FDBP/FUDP up to Rs. 2.60 crore

**\*Annexure – Details of instruments rated**

| Name of the Facilities                 | Date of Issuance | Coupon Rate    | Maturity Date  | Amount (Rs. Cr.) | Ratings/Outlook                  |
|--|------------------|----------------|----------------|------------------|----------------------------------|
| Cash Credit                            | Not Applicable   | Not Applicable | Not Applicable | 3.50             | ACUITE BB/Stable<br>(Reaffirmed) |
| PC/PCFC                                | Not Applicable   | Not Applicable | Not Applicable | 2.60             | ACUITE A4+<br>(Reaffirmed)       |
| Letter of credit                       | Not Applicable   | Not Applicable | Not Applicable | 14.00            | ACUITE A4+<br>(Reaffirmed)       |
| Bank guarantee/<br>Letter of Guarantee | Not Applicable   | Not Applicable | Not Applicable | 1.84             | ACUITE A4+<br>(Reaffirmed)       |
| Proposed Short Term Loan               | Not Applicable   | Not Applicable | Not Applicable | 5.55             | ACUITE A4+<br>(Reaffirmed)       |
| Proposed Long Term Loan                | Not Applicable   | Not Applicable | Not Applicable | 1.65             | ACUITE BB/Stable<br>(Reaffirmed) |

**Contacts**

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|---|--|
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**About Acuite Ratings & Research:**

Acuite Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,422 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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