

Press Release

SATYAM PHARMA CHEM PRIVATE LIMITED

February 14, 2022



Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.86	ACUITE BB+ Stable Upgraded	-
Bank Loan Ratings	21.28	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	29.14	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE Double B plus**) from '**ACUITE BB**' (read as **ACUITE Double B**) and reaffirmed 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 outlook is '**Stable**'.

Reason for Upgrade

The rating upgrade takes into account improvement in the company's revenue post easing of COVID induced lockdowns and travel restrictions for 9M FY2022. It has been able to achieve on the back of established relations with its customers & suppliers and diversified product profile. The rating also factors in the established track record of operations with experienced promoters and moderate financial risk profile. The rating however is constrained by elongation in SPPL's working capital cycle and presence in an competitive and fragmented operating environment. SPPL's ability to improve its scale of operations while maintaining its profitability will remain a key rating sensitivity.

About the Company

SPPL incorporated in the year 1981, promoted by Mr. Navin J. Khokhani is engaged in manufacturing a wide range of inorganic metal based specialty chemicals such as acetates (salts of acetic acid), compounds (manganese), bismuth, selenium and among others which are caterer to industries such as Petrochemicals, Ceramics, Textiles, Pharmaceuticals and among others. It is an ISO 9001:2008 certified entity and has its manufacturing facility located at Rabale, Navi Mumbai.

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

SPPL is engaged in manufacturing a wide range of inorganic metal based specialty chemicals. It has an established operational track record of four decades. It is promoted by Mr. Navin J. Khokhani who possesses more than four decades of experience in the speciality chemicals industry. He is supported by his son Mr. Samit Khokhani and its qualified team of senior

management in managing its business operations. The extensive experience of the promoters has enabled SPPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that SPPL will continue to benefit from its experienced management and established track record of operations.

Improving operating performance despite slowdown in FY2021 on account of COVID 19.

SPPL reported revenues of Rs.30.35 crore for FY2021 as against Rs.42.19 crore in FY2020 and Rs.36.35 crore in FY2019. Since the company is engaged in both domestic as well as export market for selling its inorganic metal based specialty chemical products to various industries, its operations were adversely impacted during FY2021 on account of spread of COVID 19 and subsequent lockdowns. However the operating margin remain unaffected and increased to 16.72 percent in FY2021 as against 13.95 percent in FY2020.

For the current year 9M FY2022, there has been a robust recovery in the company's operational performance as the lockdown and travel restrictions were lifted and the various sectors that SPPL caters to, moved toward normalcy. For 9M FY2022, the company has achieved sales of Rs.55.71 crore which is higher than the revenue for entire FY2021 and FY2020. Out of this domestic sales comprises of 63 percent and export sales comprises of 37 percent. Going forward, the company plans to introduce new range of products and upgrade its existing product portfolio in response to the improved export demand. The scale of operations still remain modest and improvement in the same will remain a key rating monitorable.

Acuité expects the SPPL's ability to improve its scale of operations while maintaining profitability will remain a key rating sensitivity factor.

Moderate Financial risk profile

SPPL's financial risk profile is moderate marked by moderate capital structure and coverage indicators. SPPL's net worth stood at Rs.16.92 crore as on 31 March, 2021 as against Rs.16.12 crore as on 31 March, 2020. The gearing (debt-equity) stood moderate at 1.33 times as on 31 March, 2021 as against 1.43 times as on 31 March, 2020. The total debt of Rs.22.51 crore as on 31 March, 2021 consists of long term bank borrowings of Rs.9.05 crore, unsecured loans from promoters of Rs.9.03 crore and short term working capital limit of Rs.3.60 crore. The interest coverage ratio stood lower at 2.18 times for FY2021 as against 3.67 times for FY2020 due to decline in operating performance. The DSCR stood at 1.05 times for FY2021 as compared to 2.49 times for FY2020. The Net Cash Accruals to Total debt stood at 0.10 times for FY2021 and 0.16 times as on FY2020. The Total outside liabilities to Tangible net worth stood at 1.97 times for FY2021 as against 2.00 times in FY2020. However as the SPPL's operating performance has improved in H1 FY2022 there has been an improvement in its financial risk profile. Its gearing stood at 1.08 times as on September 30, 2021 (Provisional) while ICR and DSCR are expected to be in the range of 3.65 times to 4.54 times and 2.38 times to 2.30 times respectively over the medium term.

Acuité believes that SPPL's financial risk profile is expected to improve on the back of its improving operating performance and no plans of significant debt funded capex plans.

Weaknesses

Elongation in working capital management

SPPL's working capital cycle has elongated in FY2021 against FY2020 reflected in the Gross Current Assets (GCA) of 159 days for FY2021 as against 78 days for FY2020. This is primarily on account of high inventory days which stood at 88 days in FY2021 as against 39 days in FY2020. High inventory days is on account of restriction in movements of goods due to nationwide lockdown as the company's operations in both ways i.e. domestic and exports were highly affected during the first four to five months of FY2021. Because of this there has been an impact in the company's debtor days which are also elongated. The debtors stood at 88 days in FY2021 as against 39 days in FY2020 whereas the creditors stood high at 172 days in FY2021 as against 85 days in FY2020. SPPL offers credit period of upto 30 days to its domestic

customers and upto 90 days to some of its export customers whereas, it enjoys credit period of upto 90 days from its domestic suppliers and upto 180 days from its import suppliers which are fully backed by letter of credit which remain ~85 percent utilised for 6 month period ended December 2021.

Acuité believes any further elongation in the company's working capital position will remain key monitorable and will lead to negative bias towards the rating.

Foreign exchange risk

SPPL imports metals from China & Hongkong which constitutes ~65 percent of total purchases while other chemicals such as acids are purchased locally. Also it exports ~40 percent of its sales to Brazil, Germany and Finland. The profitability of the company is exposed to fluctuation in the product prices as the same constitutes a significant portion of the total sales. The prices of the commodity fluctuate and are highly dependent on the demand and supply scenario in the global market. Hence, the margins of the ADPL are exposed to volatility in the foreign exchange rate.

Competitive and fragmented industry

The inorganic chemicals industry is highly fragmented with the presence of both modest sized and large players across various product categories. SPPL is also a moderate sized player, thereby limiting its bargaining power and susceptibility to pricing pressure is also higher compared to well-established and larger players. However, the company's presence of over four decades in the industry has enabled it to partially offset competitive pressures. Further, it undertakes regular research and development to improve its product offerings. This will help the company is improving its competitive position.

Rating Sensitivities

- Ability to maintain scale of operations and maintaining profitability
- Any further elongation in working capital cycle

Material covenants

None

Liquidity Position - Adequate

SPPL has adequate liquidity position marked by healthy net cash accruals against its debt obligations. The company generated cash accruals in the range of Rs.3.17 crore – Rs.2.34 crore during FY'18-19 to FY'20-21 against repayment obligation of Rs.0.40 crore – Rs.0.82 crore during the same period. Going forward the NCA are expected in the range of Rs.6.09 crore – Rs.10.02 crore for period FY2022-FY2024 against repayment obligation of Rs.2.00 crore – Rs.2.40 crore for the same period. The company's operations are highly working capital intensive marked by gross current asset (GCA) days of 159 days for FY2021 due to its high inventory days. This makes the company dependent on bank borrowing for working capital requirement. Average bank limit utilization for 6 months' period ended December 2021 stood at 63.24 percent. Current ratio stands at 1.45 times as on 31 March 2021. The company has maintained cash & bank balance of Rs.0.50 crore in FY2021.

Acuité believes that the liquidity of the SPPL is likely to remain adequate over the medium term on account of healthy cash accruals its debt obligations.

Outlook: Stable

Acuité believes that SPPL will maintain a 'Stable' outlook in near to medium term on account of its experienced management and improving operating performance. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected growth in revenue while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to negative in case lower than improvement in scale of operations or any elongation in working capital cycle leading to moderation in liquidity profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	30.35	42.19
PAT	Rs. Cr.	0.80	2.17
PAT Margin	(%)	2.65	5.14
Total Debt/Tangible Net Worth	Times	1.33	1.43
PBDIT/Interest	Times	2.18	3.67

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Nov 2020	Packing Credit	ShortTerm	2.60	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	ShortTerm	1.84	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.65	ACUITE BB Stable (Reaffirmed)
	Proposed Short Term Loan	ShortTerm	5.55	ACUITE A4+ (Reaffirmed)
	Letter of Credit	ShortTerm	14.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	3.50	ACUITE BB Stable (Reaffirmed)
08 Apr 2020	Bank Guarantee	Short Term	1.84	ACUITE A4+ (Issuer not co-operating*)
	Packing Credit	Short Term	2.60	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	14.00	ACUITE A4+ (Issuer not co-operating*)
	Proposed Short Term Loan	Short Term	5.55	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	3.50	ACUITE BB (Issuer not co-operating*)
	Term Loan	Long Term	1.65	ACUITE BB (Issuer not co-operating*)
18 Jan 2019	Packing Credit	Short Term	2.60	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A4+ (Reaffirmed)
	Proposed Short Term Loan	Short Term	5.55	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	3.50	ACUITE BB Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.84	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	1.65	ACUITE BB Stable (Reaffirmed)
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)
		Long		

06 Aug 2015	Cash Credit	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.84	ACUITE A4+ Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB+ Stable Upgraded (from ACUITE BB)
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4+ Reaffirmed
Punjab National Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.60	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.84	ACUITE A4+ Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	3.00	ACUITE BB+ Stable Upgraded (from ACUITE BB)
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.36	ACUITE BB+ Stable Upgraded (from ACUITE BB)

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About Acuité Ratings & Research

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