

Press Release

Satyam Pharma-Chem Private Limited

December 08, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.70	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	7.32	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	4.87	-	ACUITE A4+ Assigned
Bank Loan Ratings	21.82	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	34.71	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed and assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 34.71 crore bank facilities of Satyam Pharma Chem Private Limited (SPPL). The outlook is '**Stable**'.

Reason for Reaffirmation

The rating reaffirmation takes into account the qualified and experienced management, long track record of operations and reputed clientele with sustained operational performance expected in the future. SPPL's ability to improve its scale of operations while maintaining its profitability will remain a key rating sensitivity. Going forward the company has plans to upgrade its product portfolio and increase more amount of exports in order to achieve higher sales. The aforesaid factors are underpinned by the competitive industry in which the company is operating alongwith the forex risk associated. The company's ability to improve its operational performance with sustained profitability will remain key monitorable.

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.

>Reputed clientele and Improved revenue while maintaining its profitability margins.

SPPL has established long term relations with Reliance Industries Limited (39 years), Indian Oil Corporation (15 years), Kansai Nerolac Paints Ltd (10 years) BASF (15 years) and others. It is engaged in manufacturing research based customised products for these clients. This enables the company to benefit from repeat orders from its customers. The company reported revenues of Rs.74.19 crore for FY2022 as against Rs.30.35 crore for FY2021. The increase in revenue is on the account of the increase in volume of sales. The company has recorded revenue of Rs 41.08 crore till Sept 2022. The operating margin of the company however stood low at 11.92 percent in FY2022 as against 16.72 percent in FY2021 since the raw materials were consumed more and therefore the cost of purchasing it was comparatively higher during the said period which has now improved to 15.58 percent in H1 of FY2023. Further, the company achieved higher net profit margin of 4.82 percent in FY2022 as against 2.65 percent in FY2021. The PAT margin of the company stood at 7.81 percent in H1 of FY2023. The company plans to introduce new range of products by next year and upgrade its existing product portfolio in order to increase more amount of exports for which its at a approval stage.

>Moderate Financial risk profile

SPPL's financial risk profile is moderate marked by net worth of Rs. 20.50 as on 31 March 2022 as against Rs.16.92 crore as on 31 March, 2021. The improvement is on the account of accretion of reserves. The gearing (debt-equity) stood low at 0.98 times as on 31 March, 2022 as against 1.33 times as on 31 March, 2021. The total debt of Rs.20.06 crore as on 31 March, 2022 consists of long term bank borrowings of Rs.5.60 crore, unsecured loans from promoters of Rs.8.59 crore and short term working capital limit of Rs.5.87 crore. The interest coverage ratio stood comfortable at 3.36 times for FY2022 as against 2.18 times for FY2021 as against 3.67 times for FY2020. The DSCR stood at 2.20 times for FY2022 as compared to 1.05 times for FY2021. The Net Cash Accruals to Total debt stood at 0.26 times as on FY2022 and 0.10 times for FY2021. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 1.91 times in FY2022 as against 1.97 times for FY2021.

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.

>Working capital management

The company's working capital operations are Efficient as compared to the previous year marked by Gross Current Assets (GCA) of 90 days for FY2022 as against 159 days for FY2021. This is primarily on account of well inventory management. The inventory days stood low at 34 days in FY2022 as against 88 days in FY2021. There is seen an improvement in companies debtors and creditors cycle as well. The debtors day stood at 51 days in FY2022 as against 88 days in FY2021 whereas the creditors stood at 122 days in FY2022 as against at 172 days in FY2021. The company offers credit period of upto 30 days to its domestic customers and upto 90 days to some of its export customers. On the other hand, it enjoys credit period of upto 90 days from its domestic suppliers and upto 180 days from its import suppliers.

Weaknesses

>Foreign exchange risk

SPPL imports metals from China & Hongkong which constitutes ~69 percent of total purchases while other chemicals such as acids are purchased locally. Also it exports ~40 percent of its sales to Brazil, Mexico 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 SPPL are exposed to volatility in the foreign exchange rate. However the company tries to mitigate this risk using forward contracts.

>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 in improving its competitive position.

Rating Sensitivities

>Improving business risk profile and profitability

>Efficient working capital management

>Cyclicality associated with end-users of the industry and maintaining adequate liquidity.

Material covenants

None

Liquidity Position

Adequate

The company's liquidity profile is adequate marked by adequate net cash accruals against its maturing debt obligations. The firm generated cash accruals of Rs. 5.15 Cr in FY2022 as against maturing debt obligation of 0.82 Cr in the same period . The firm maintains unencumbered cash and bank balances of Rs. 0.16 crore as on March 31, 2022 .

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 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 lower than improvement in scale of operations or any elongation in working capital cycle leading to moderation in liquidity profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	74.19	30.35
PAT	Rs. Cr.	3.57	0.80
PAT Margin	(%)	4.82	2.65
Total Debt/Tangible Net Worth	Times	0.98	1.33

PBDIT/Interest	Times	3.36	2.18
----------------	-------	------	------

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Feb 2022	Letter of Credit	Short Term	14.00	ACUITE A4+ (Reaffirmed)
	Proposed Short Term Loan	Short Term	2.84	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	1.84	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	1.36	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Packing Credit	Short Term	2.60	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	3.50	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Term Loan	Long Term	3.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
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	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*)

2020	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	1.84	ACUITE A4+ Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE BB+ Stable Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.93	ACUITE A4+ Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.77	ACUITE A4+ Assigned
Punjab National Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.60	ACUITE A4+ Reaffirmed
Punjab National Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.10	ACUITE A4+ Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.45	ACUITE A4+ Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.00	ACUITE BB+ Stable Reaffirmed
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	0.82	ACUITE BB+ Stable Reaffirmed
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	0.70	ACUITE BB+ Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Radhika Kolwankar Analyst-Rating Operations Tel: 022-49294065 radhika.kolwankar@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.