

## Press Release

SATYAM PHARMA CHEM PRIVATE LIMITED

March 07, 2024

### Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	6.21	ACUITE BB+   Stable   Reaffirmed	-
Bank Loan Ratings	3.00	-	ACUITE A4+   Assigned
Bank Loan Ratings	28.50	-	ACUITE A4+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	37.71	-	-

### Rating Rationale

Acuite has reaffirmed 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'.

Further, Acuite has assigned the short-term rating of 'ACUITE A4+' (read as ACUITE A Four Plus) on the Rs. 3.00 crore bank facilities of Satyam Pharma Chem Private Limited (SPPL).

### Reason for Reaffirmation

The reaffirmation of the rating takes into account the stable operating performance of SPPL in FY2023 marked by stagnant scale of operations and range bound operating margins. The revenue of the company stood at Rs.74.69 Cr in FY2023 as against Rs.74.19 Cr in FY2022. Also, the profitability margins improved to 5.56 percent in FY2023 as against 4.82 percent in FY2022. The rating continues to derive strength from qualified and experienced management, long track record of operations, efficient working capital operations, adequate liquidity and reputed clientele such as Reliance industries Limited, Nerolac paints, Indian oil corp, BASF India Limited and among others.

Going forward the company has plans to upgrade its product portfolio and increase in exports in order to achieve higher sales. The aforesaid factors are underpinned by the competitive industry in which the company is operating along with the forex risk associated. Further, 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.

### Unsupported Rating

Not Applicable

### 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 specialty 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 stable operating performance

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 stagnant revenues of Rs.74.69 crore for FY2023 as against Rs.74.19 crore for FY2022. The stability in revenue is on the account of the increase in volume of sales. Out of the revenue earned in FY2023, the company has earned 67% of revenue from domestic and remaining 33% from exports. Further, till January 2024, the company has recorded revenue of ~Rs 50 crore.

The operating margin of the company however stood low at 11.74 percent in FY2023 as against 11.92 percent in FY2022 due to high raw material cost and price volatility which has now improved to 15.81 percent in 9MFY2024. Further, the company achieved higher net profit margin of 5.56 percent in FY2023 as against 4.82 percent in FY2022. The PAT margin of the company stood at 5.55 percent in 9MFY2024. The company has plans to introduce new range of products every year and upgrade its existing product portfolio in order to increase more amount of exports. The company also has on order book of Rs.29 Cr in hand to be executed as of January 2024.

Acuité expects the SPPL' 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 net worth, low gearing and moderate debt protection metrics. The tangible networth improved to Rs. 23.85 as on 31 March 2023 as against Rs.20.50 crore as on 31 March, 2022. The improvement is on the account of accretion of reserves. The gearing (debt-equity) stood low at 0.87 times as on 31 March, 2023 as against 1.01 times as on 31 March, 2022. The total debt of Rs.20.72 crore as on 31 March, 2023 consists of long term bank borrowings of Rs.7.34 crore, unsecured loans from promoters of Rs.8.19 crore, short term borrowings of Rs.4.09 crore and CPLTD of Rs.1.10 crore. The interest coverage ratio stood comfortable at 4.00 times for FY2023 as against 3.36 times for FY2022. The DSCR stood at 2.46 times for FY2023 as compared to 2.20 times for FY2022. The Net Cash Accruals to Total debt stood at 0.30 times as on FY2023 and 0.25 times for FY2022. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 1.71 times in FY2023 as against 1.94 times for FY2022.

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.

#### Efficient Working capital management

The company's working capital operations are efficient marked by Gross Current Assets (GCA) of 73 days for FY2023 as against 93 days for FY2022. This is primarily on account of well inventory management. The inventory days stood low at 30 days in FY2023 as against 34 days in FY2022. There is seen an improvement in companies' debtors as well. The debtor's day stood at 22 days in FY2023 as against 51 days in FY2022 whereas the creditors stood at 124 days in FY2023 as against at 122 days in FY2022. 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. The average fund-based limits utilization and non-fund-based utilization stood at 70 percent for the last 10 months ending January 2024.

## **Weaknesses**

### **Foreign exchange risk**

SPPL imports metals from Taiwan, China Hongkong and among others which constitutes ~77 percent of total purchases while other chemicals such as acids are purchased locally. Also it exports ~33 percent of its sales to Finland, Mexico, Italy, Finland and among others. 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**

Improvement in scale of operations and profitability

Efficient working capital management

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

## **Liquidity Position**

### **Adequate**

The company's liquidity position is adequate marked by sufficient net cash accruals against its maturing debt obligations. The company has net cash accruals in the range of Rs.5.15-6.14 Crore from FY 2022- 2023 against its maturing debt obligations in the range of Rs.0.82-1.06 crore in the same tenure. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.6.60-7.19 crores against the maturing repayment obligations of around Rs.1.15-1.29 crore over the medium term. The working capital management of the company is efficient marked by GCA days of 73 days in FY2023 as against 93 days in FY2022. The company maintains unencumbered cash and bank balances of Rs.2.82 crore as on March 31, 2023. The current ratio stands at 1.14 times as on March 31, 2023 as against 1.18 times as on March 31, 2022. The average fund-based limits utilization and non-fund-based utilization stood at 70 percent for the last 10 months ending January 2024.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	74.69	74.19
PAT	Rs. Cr.	4.15	3.57
PAT Margin	(%)	5.56	4.82
Total Debt/Tangible Net Worth	Times	0.87	1.01
PBDIT/Interest	Times	4.00	3.36

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

Not Applicable

### 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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Dec 2022	Letter of Credit	Short Term	16.93	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	0.77	ACUITE A4+ (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	1.84	ACUITE A4+ (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	0.45	ACUITE A4+ (Reaffirmed)
	Packing Credit	Short Term	2.60	ACUITE A4+ (Reaffirmed)
	Packing Credit	Short Term	4.10	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	3.50	ACUITE BB+   Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	0.82	ACUITE BB+   Stable (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BB+   Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	0.70	ACUITE BB+   Stable (Assigned)
14 Feb 2022	Proposed Short Term Bank Facility	Short Term	2.84	ACUITE A4+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	1.84	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A4+ (Reaffirmed)
	PC/PCFC	Short Term	2.60	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BB+   Stable (Upgraded from ACUITE BB   Stable)
	Term Loan	Long Term	1.36	ACUITE BB+   Stable (Upgraded from ACUITE BB   Stable)
	Cash Credit	Long Term	3.50	ACUITE BB+   Stable (Upgraded from ACUITE BB   Stable)

## 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 avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.84	ACUITE A4+   Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.50	ACUITE BB+   Stable   Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	19.50	ACUITE A4+   Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE A4+   Assigned
Punjab National Bank	Not avl. / Not appl.	Packing Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.70	ACUITE A4+   Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.46	ACUITE A4+   Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Term Loan	28 Sep 2021	Not avl. / Not appl.	30 Nov 2027	Simple	1.64	ACUITE BB+   Stable   Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Working Capital Term Loan	26 Nov 2021	Not avl. / Not appl.	30 Nov 2026	Simple	0.68	ACUITE BB+   Stable   Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Working Capital Term Loan	22 Jun 2020	Not avl. / Not appl.	31 Jul 2024	Simple	0.39	ACUITE BB+   Stable   Reaffirmed

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### 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.

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