

Press Release

Siddharth Carbochem Products Limited

November 19, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 46.44 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' on the Rs. 46.44 crore bank facilities of SIDDHARTH CARBOCHEM PRODUCTS LIMITED (SCPL). The outlook is '**Stable**'.

Started in 1984, SCPL is a diverse company manufacturing a range of specialty chemicals and bulk drugs such as Salicylic Acid, Methyl Salicylate and Octyl Salicylate, amongst others. It is promoted by Mr. Ashesh Jain, Mr. Tushar Rane and Mr. I.C. Modi. SCPL's plant is located in Jalgaon (Maharashtra) with overall capacity of producing 8150 MTPA.

Analytical Approach

Acuité has changed the rating approach of Siddharth Carbochem Products Limited from standalone business and financial risk profile to consolidated business and financial risk profile of Siddharth Carbochem Products Limited and Rishabh Metals and Chemicals Private Limited (RMC) together referred to as 'Rishabh Group' to arrive at the rating. The consolidation is in view of common management and cross guarantee given. Extent of consolidation: Full

Key Rating Drivers

Strengths

• Experienced management

Rishabh group has presence in specialty chemical industry since 1975. The group is operated and managed by Mr. Ashesh who has an established experience of nearly two decades in the aforementioned industry. SCPL is engaged in manufacturing of Methyl Salicylate & Salicylic Acid. Later, RMC was set up in 1983 and is engaged in manufacturing of specialty chemicals and water-soluble polymers. RMC manufactures range of specialty chemicals and water-soluble polymers like wet strength resins, poly amide resin, poly DCDA resins and blends of organic and inorganic coagulants.

Further, the group deals into various range of products which finds application in various industry such as pharmaceuticals, water and waste water, paper, textile and sugar industry. 90-95% of the group sales accounts for these major industries. The top 5 customers of the group accounts for ~22 percent of total sales in FY2019.

Acuité believes that the group will benefit from experienced management, which will help the group to maintain long standing relations with its customers and suppliers.

• Efficient working capital operations

Rishabh group has efficiently managed its working capital as reflected in Gross Current Assets (GCA) of 101 days in FY2019 as against 121 days in FY2018 and 115 days in FY2017. This group generally maintains inventory of 40-50 days. Debtors stood at 54 days in FY2019 as against 78 days in FY2018. As a result, the reliance on working capital limits is moderate at ~60 per cent.

Acuite expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company.

• Moderate financial risk profile

The financial risk profile of the group is moderate marked by moderate tangible net worth, comfortable debt protection measures and low gearing. The net worth of the company stood around at Rs.32.57 crore as on 31 March, 2019 as against Rs.27.01 crore in FY2018. The networth levels have seen improvement over the last three years through FY 2019 on account of healthy accretion to reserves during the same period. The group has followed a moderately aggressive financial policy in the past. The group's gearing improved to 0.48 times as on 31 March, 2019 as against 1.06 times in the previous year. The total debt of Rs.15.66 crore as on 31 March, 2019 consists of long-term debt of Rs.0.98 crore, Rs. 5.22 crore of unsecured loans from promoters and Rs.9.46 crore of short-term debt obligations.

The leverage and coverage indicators continue to remain moderate marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood moderate at 4.06 times and DSCR stood at 3.39 times for FY2019. Total outside liabilities to tangible net worth has stood at 1.94 times as on 31 March, 2019 as against 1.84 times as on 31 March, 2018.

Weaknesses

- **Fluctuating revenues and profitability**

The revenue trend of the group is uneven during the period FY2017 to FY2019 under the study. The operating income stood at Rs. 233.19 crore in FY2019 as against Rs.147.50 crore in FY2018 and Rs.187.39 crore in FY2017. The decline in revenues in FY2018 is partially attributed to impact of GST and partially to shift in target customer to more organised and larger clientele.

Further, the margins of the group are susceptible to volatility in raw material prices, which have been uneven during the period under study. The group's operating margins stood modest at 5.08 per cent in FY2019 as against 5.38 per cent in FY2018 and 3.39 per cent in FY2017. Further, the group reported Profit after Tax (PAT) margins of 2.39 per cent in FY2019 as against 1.99 per cent in FY2018 and 1.06 per cent in FY2017.

Acuité believes that the group's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity

- **Susceptible to fluctuations in prices of raw materials and forex rates**

The group's total raw material constitutes of around 83 percent of total sales. Major raw material required for the company is monomers like dimethylamine, diethyl amine, etc. which are 40 percent imported and 60 percent domestically procured. The group's profitability is exposed to any adverse fluctuations in prices of these raw materials. Also, the company faces foreign exchange fluctuation risk as company exports 20 percent to the countries like US, Middle East, Indonesia, Africa among few. However, the forex risk is partially mitigated as company also imports.

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) to 120-130 days.
- Substantial improvement in scale of operation (~Rs.270.00-300.00 crores), while maintaining profitability margin of around 6.50-7.50 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

Rishabh Group has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 3.0 crore – Rs. 7.4 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs. 0.11 crore over the same period. The cash accruals are estimated to improve to Rs. 8.3 – 10.4 crores during 2020- 22, while its repayment obligations are expected to be Rs.0.11-0.15 crore over the same period. The company maintains cash and bank balances of Rs. 1.22 crore as on March 31, 2019. The current ratio stood moderate at 1.26 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term on account of experienced management, moderate financial risk profile and efficient working capital. 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 requirement.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	233.19	147.50	187.39
EBITDA	Rs. Cr.	11.85	7.94	6.36
PAT	Rs. Cr.	5.56	2.94	1.99
EBITDA Margin	(%)	5.08	5.38	3.39
PAT Margin	(%)	2.39	1.99	1.06
ROCE	(%)	19.33	11.39	9.20
Total Debt/Tangible Net Worth	Times	0.48	1.06	1.09
PBDIT/Interest	Times	4.06	3.15	2.61
Total Debt/PBDIT	Times	1.29	3.89	4.68
Gross Current Assets (Days)	Days	101	121	115

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-17.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>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
07-Dec-2019	Cash Credit	Long Term	4.94	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	8.50	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	33.00	ACUITE A3 (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	4.94*	ACUITE BBB- /Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.50^	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A3 (Reaffirmed)
Proposed Non-Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- /Stable (Reaffirmed)

