Press Release

Siddharth Carbochem Products Limited

September 01, 2020

Rating Upgraded

Total Bank Facilities Rated*	Rs. 50.00 Cr. (Enhanced from Rs.46.44 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUIE A3)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' **(read as ACUITE triple B)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short term rating to **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs.50.00 crore bank facilities of Siddharth Carbochem Products Limited. The outlook is **'Stable'**.

Started in 1984, Siddharth Carbochem Products Limited is a diverse company manufacturing a range of speciality 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 an overall capacity of producing 8150 MTPA.

Analytical Approach

Acuité has consolidated the business and financial risk profile of Rishabh Metals and Chemicals Private Limited (RMC) and Siddharth Carbochem Products Limited (SCPL) 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

About the Group

Rishabh Group is promoted by Mr. Ashesh Jain who possess experience for almost nearly two decades in speciality chemical industry. RMC is engaged in manufacturing of speciality chemicals and water-soluble polymers which finds applications in various industry. SCPL is the largest manufacturer of Methyl Salicylate & Salicylic Acid derivatives in India. The group has its manufacturing facility located in Jalgaon, Maharashtra.

Key Rating Drivers

Strengths

- **Experienced management**

Rishabh group has a presence in speciality 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 speciality chemicals and water-soluble polymers. RMC manufactures a range of speciality chemicals and water-soluble polymers like wet strength resins, polyamide resin, poly DCDA resins and blends of organic and inorganic coagulants.

Further, the group deals into a various range of products which finds application in various industry such as pharmaceuticals, water and wastewater, paper, textile and sugar industry. 90-95% of group sales account for these major industries.

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.

- **Healthy financial risk profile and working capital management**
  The financial risk profile of Rishabh group is healthy marked by healthy tangible net worth, debt protection metrics and leverage ratios. The tangible net worth of the group stood at Rs.42.83 crore Provisional as on 31 March, 2020 as against Rs.32.57 crore in the previous year. The increase in tangible net worth is on account of accretion in reserves. The gearing (debt to equity) stood comfortable at 0.07 times Provisional as on 31 March, 2020 as against 0.48 times as on 31 March, 2019. The total debt of Rs.3.09 crore Provisional as on 31 March, 2020 comprises term loan of Rs.0.87 crore, unsecured loans from directors of Rs. 1.62 crores and Rs.0.60 crore working capital facility from the bank. The coverage indicator of the company stood a healthy marked by healthy Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood healthy at 4.88 times Provisional for FY2020 as against 4.06 times for FY2019. DSCR stood at 4.28 times Provisional in FY2020 as against 3.39 times in the previous year. Total outside liabilities to tangible net worth has come down to 1.39 times (Provisional) as on 31 March, 2020 (PY: 1.94 times).

  Further, the group's working capital operation is comfortable marked by Gross Current Assets (GCA) of 81 days Provisional in FY2020 as against 101 days in FY2019. The group generally maintains an inventory of 40-50 days. Debtors stood at 41 days Provisional in FY2020 as against 54 days in FY2019. As a result, the reliance on working capital limits is moderate at ~60 per cent.

  Acuité believes that the growth in revenue, sustenance of its profitability margins and absence of any significant capex plans are expected to support the financial risk profile in near to medium term.

- **Healthy business risk profile**
  The revenues of Rishabh group have grown at a CAGR of ~14 percent from FY2017 to FY2020 Provisional. Revenues stood at Rs.279.51 crore Provisional in FY2020 as against Rs. 233.19 crore in the previous year. The growth in revenue is majorly on account of higher capacity utilization and higher realization of its key products viz. Methyl Salicylate and Salicylic Acid.

  Introduction of a new product like Sodium salicylate (application in pharma), salicylamide (application in pharma), hexyl salicylate (used in disinfectants, pest control products), benzyl salicylate (application in cosmetics), amyl salicylate (used for adhesion), homosalate (application in cosmetics) and aspirin (pharma) among other are expected to improve the operating income of the group over the years. The EBITDA margins stood at 6.12 percent in Provisional FY2020 as against 5.08 percent in FY2019. The group has diversified customer base with 30-40 percent exports to the countries like the USA, Indonesia, South Africa, etc among others.

  Acuité believes that the group will maintain a healthy business risk profile on the back of its established market.

Weaknesses

- **Susceptible to fluctuation in prices of raw material and forex rates**
  The group's total raw material constitutes of around ~80 percent of total sales. Major raw material required for the company is monomers like dimethylamine, diethylamine, etc. which are 50 percent imported and 50 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 are 30 percent. However, the forex risk is partially mitigated as the company also imports.

Rating Sensitivities

- Stretch in Gross Current Assets (GCA) to 130-150 days
- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.

Material Covenants

None

Liquidity position: Healthy

Rishabh Group has healthy liquidity marked by net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 4.2 crore – Rs. 12.4 crore during the last three years through 2018-20 Provisional, 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. 14.7 – 22.2 crores during 2021- 23, while its repayment obligations are expected to be Rs.0.11-0.12 crore over the same period. The company maintains cash and bank balances of Rs. 7.66 crore Provisional as on March 31, 2020. The current ratio stood moderate at 1.33 times Provisional as on March 31, 2020. Acuité believes that the liquidity of the group is likely to remain healthy 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, comfortable financial risk profile and 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 the envisaged working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	279.51	233.19
PAT	Rs. Cr.	10.26	5.56
PAT Margin	(%)	3.67	2.39
Total Debt/Tangible Net Worth	Times	0.07	0.48
PBDIT/Interest	Times	4.88	4.06

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
- Financial Ratios and Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation of Companies - https://www.acuite.in/view-rating-criteria-60.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
19-Nov-2019	Cash Credit	Long Term	4.94	ACUITE BBB- /Stable (Reaffirmed)
	Letter of Credit	Short Term	8.50	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	28.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BBB- /Stable (Reaffirmed)
07-Dec-2018	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 (Upgraded from ACUITE BBB- /Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.50^	ACUITE A3+ (Upgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE A3+ (Upgraded from ACUITE A3)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.56	ACUITE BBB /Stable (Upgraded from ACUITE BBB- /Stable)

**Sublimit – PC/PCFC of Rs. 1.25 crore of Cash Credit*
^Sublimit – Bank Guarantee of Rs.0.50 crore of Letter of Credit

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About Acuité Ratings & Research:
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