

Press Release

Siddharth Carbochem Products Limited

August 13, 2021



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 54.00 Cr. (Enhanced from Rs. 50.00 Cr)
Long Term Rating	ACUITE BBB+/Stable (Upgraded from ACUITE BBB)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 53.51 crore bank facilities of Siddharth Carbochem Products Limited (SCPL). The outlook is '**Stable**'.

Also, Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 0.49 crore bank facilities of SCPL. The outlook is '**Stable**'.

Rationale for rating Upgrade

The ratings upgrade derive comfort from extensive experience of promoters in the chemical industry, long track record of operations, strong R&D Department and reputed as well as diversified product range and customer base across various industries. The rating assigned also factors in healthy financial risk profile of the group marked by low gearing of 0.49 times as on 31st March 2021 (Prov.), healthy debt-coverage indicators as evident from the interest coverage ratio of 8.12 times in FY2021 (Prov.) and debt service coverage ratio 6.78 times in FY2021 (Prov.). On the contrary, ratings are constrained on account susceptibility to fluctuations in prices of raw material and forex rates. Going forward, the ability of the group to improve its scale of operations along with the financial risk profile and liquidity position would be the key rating sensitivities.

About the company

Started in 1984, Mumbai based Siddharth Carbochem Products Limited (SCPL) is a diverse company manufacturing a range of specialty chemicals, bulk drugs. It is among very few companies around the globe capable of manufacturing Methyl Salicylate with very low (under 10 ppm) impurity profile (e.g. Phenol, Methyl Paraben etc.). Other products which are under development include Octyl Salicylate, Benzyl Salicylate, Hexyl Salicylate, Iso amyl Salicylate. These products are extensively used in Pharmaceuticals, Food, Beverages, Flavour and Fragrance, Tobacco, cosmetics, homecare and personal care industry.

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 watersoluble 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.

Analytical Approach

For arriving at the rating, Acuite has taken consolidated view on 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

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 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.

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

- **Healthy financial risk profile**

The financial risk profile of the group is healthy marked by moderate net worth, low gearing levels and healthy debt protection metrics and coverage indicators. The net worth of the group is moderate at Rs. 55.94 crore as on March 31, 2021 (Prov.) as against Rs. 41.86 crore as on March 31, 2020. The net worth levels have seen improvement from FY2020 to FY2021 on account of higher ploughing back of profits in form of retained earnings.

The group has followed a moderately aggressive financial policy in the past and is continuing with the same policy as reflected through its gearing of 0.49 times as on 31st March 2021 (Prov.) as against 0.08 as on 31st March 2020 the increase is mainly due to GECL loan taken by the group, the group has taken GECL as the group is able to get the loans at lower rate and also gets the benefit of interest subvention. The group has invested the money in short term liquid funds and has been able to take arbitrage benefit. Total outside liabilities to tangible net worth (TOL/TNW) levels of 1.33 times as on March 31, 2021 (Prov.). The company's debt coverage indicators have improved significantly as evident by rise in debt-service-coverage-ratio of 6.78 times as on 31st March, 2021 (Prov.) as against 3.99 times as on 31st March, 2020 and interest coverage ratio of 8.12 times as on 31st March, 2021 (Prov.) as against 4.74 times as on 31st March, 2020.

Acuite believes that the financial risk profile of the group will continue to remain healthy on account of moderate net worth and healthy debt protection metrics.

- **Healthy business risk profile**

The group has reported operating income of Rs.270.40 crore Provisional in FY2021 as against Rs. 279.54 crore in the previous year. The revenue from operations remained muted in FY2021 majorly on account of Covid pandemic which lowered the demand in the global market. Also, the group has increased its capacity in the financial year 2021 due to which the utilization for the current year has been low. Further, the introduction of 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), homo salate (application in cosmetics) and aspirin (pharma) among other are expected to improve the operating income of the group over the medium term.

The EBITDA margin have been in an increasing trend coming from 5.08% in FY19 to 5.99% in FY20 to 7.22% in FY2021 (Prov.). The EBITDA margins have been increasing as the group has been continuously investing in automating the manufacturing process which has helped the group to lower the variable cost. The group has also diversified into many other products with higher margins. Further, Net Profit margin has increased coming from 2.39% in FY2019 to 3.22% in FY2020 to 5.21% in FY2021. The PAT margins have been in an increasing trend as the group has been able to efficiently manage its working capital cycle which in turn has helped the group to lower its interest cost.

The group has diversified customer base with 30-40 percent exports to the countries like USA, Indonesia, and South Africa etc. among others.

Acuite 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 around ~80 percent of total sales. Major raw material required for the group 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 group faces foreign exchange fluctuation risk as group exports are 30 percent. However, the forex risk is partially mitigated as the group also imports.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining the profitability.
- Deterioration in working capital management leading to stretched liquidity.

Material Covenants

None

Liquidity position: Healthy

The group has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 16.23 crore for FY2021 while the maturing debt obligations were in the range of Rs. 5.00 crore for the same period. The group has unencumbered cash and bank balances of only Rs. 13.09 crore as on 31st March 2021 and short term liquid investment in Mutual Fund of Rs. 14.60 Cr. Further, the fund-based working capital limits for Siddharth Carbochem Products Limited are hardly utilized, the average utilization stood at 0% and non-fund based working capital limits are utilized at an average of 27.90% for the last twelve months ending June 2021. For Rishabh Metals and Chemicals the average utilization for fund based facility stood at 4.65% and average utilization for non-fund based facility stood at 33.75% for the last twelve months ending June 2021. Therefore, there are enough net cash accruals & limits available to utilize more funds if required to support incremental requirements.

Outlook: Stable

Acuite believes that the group will maintain a 'Stable' outlook over the medium term on account of experienced management, comfortable financial risk profile, working capital and strong R&D Department. 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	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	270.40	279.54
PAT	Rs. Cr.	14.08	8.99
PAT Margin	(%)	5.21	3.22
Total Debt/Tangible Net Worth	Times	0.49	0.08
PBDIT/Interest	Times	8.12	4.74

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>
- 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
01-Sep-2020	Cash Credit	Long term	4.94	ACUITE BBB /Stable

				(Upgraded from ACUITE BBB- /Stable)
	Letter of Credit	Short term	8.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short term	33,00	ACUITE A3+ (Upgraded from ACUITE A3)
	Proposed Bank Facility	Long term	3.56	ACUITE BBB /Stable (Upgraded from ACUITE BBB- /Stable)
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)
7 th 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**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Union Bank of India	Cash Credit	Not Available	Not Available	Not Available	4.94	ACUITE BBB+ /Stable (Upgraded from ACUITE BBB)
Union Bank of India	Working Capital Term Loan	Not Available	8.00%	Not Available	0.49	ACUITE BBB+ /Stable (Assigned)
Union Bank of India	Letter of Credit	Not Available	Not Available	Not Available	8.50	ACUITE A2 (Upgraded from ACUITE A3+)
Bank of India	Letter of Credit	Not Available	Not Available	Not Available	36.00	ACUITE A2 (Upgraded from ACUITE A3+)
Not Applicable	Proposed Bank Facility	Not Available	8.00%	Not Available	4.07	ACUITE BBB+ /Stable (Upgraded from ACUITE BBB)

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About Acuité Ratings & Research:

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