**Press Release**

**Siddharth Carbochem Products Limited**

**August 08, 2022**

**Rating Assigned and Reaffirmed**

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---|---|---|
| **Bank Loan Ratings** | 2.00 | ACUITE BBB+ \| Stable \| Assigned | - |
| **Bank Loan Ratings** | 44.50 | - | ACUITE A2 \| Reaffirmed |
| **Bank Loan Ratings** | 9.50 | ACUITE BBB+ \| Stable \| Reaffirmed | - |
| **Total Outstanding Quantum (Rs. Cr)** | 56.00 | - | - |
| **Total Withdrawn Quantum (Rs. Cr)** | 0.00 | - | - |

## Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB+**' (read as ACUITE triple B plus) and the short term rating to '**ACUITE A2'** (read as ACUITE A two) on the Rs. 54.00 crore bank facilities of SIDDHARTH CARBOCHEM PRODUCTS LIMITED (SCPL). The outlook is '**Stable**.

Further, Acuité has assigned the long term rating of '**ACUITE BBB+**' (read as ACUITE triple B plus) on the Rs. 2.00 crore bank facilities of SIDDHARTH CARBOCHEM PRODUCTS LIMITED (SCPL) . The outlook is '**Stable**.

### Rationale for rating reaffirmation

The rating derives comfort from long track record of operations, healthy financial risk profile marked by low gearing along with healthy debt-coverage indicators and sufficient liquidity. Further, the rating continues to draw comfort from extensive experience of promoters in the chemical industry, its strong R&D Department and reputed as well as diversified product range and customer base across various industries. On the contrary, the ratings are constrained on account of moderate net worth, intensive working capital operations marked by marginal stretch in the receivables during FY2022 & susceptibility of profits to volatile prices of raw material and forex rates.

## About 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

### Extent of Consolidation

- Full Consolidation

### Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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 guarantees given.

## Key Rating Drivers

### Strengths

**Experienced management and long track record of operations**

Rishabh group has presence in specialty chemicals industry since 1975. The group is operated and managed by Mr. Ashesh Jain who has experience of nearly two decades in the aforementioned industry. SCPL is engaged in manufacturing of Methyl Salicylate & other salicylic acid derivatives. The group set up its other company RMC in 1983 and it is engaged in manufacturing of specialty chemicals and water-soluble polymers. RMC manufactures range of specialty chemicals and watersoluble polymers like wet strength resins, poly amide resin, poly DCDA resins and blends of organic and inorganic coagulants. Further, various range of products the group deals into, finds applicability in various industries such as pharmaceuticals, flavour & fragrances, cosmetics, water and waste water treatment, paper, textile, sugar etc.
Acuité believes that the group will continue to benefit from its experienced management and established track record in maintaining 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 coverage indicators. The tangible net worth of the group is moderate at Rs. 67.63 crore as on March 31, 2021(Prov.) as against Rs. 53.68 crore as on March 31, 2021. 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 a healthy gearing of 0.45 times as on 31st March 2022(Prov.) as against 0.41 as on 31st March 2021. Going forward, in absence of any additional debt, the gearing is expected to further improve & remain in the range of 0.31-0.25 times during FY2023 & FY2024 as the group has paid off all its long term debt during FY2022. Total outside liabilities to tangible net worth (TOL/TNW) levels improved and stood at 1.25 times as on March 31, 2022 (Prov.) against 1.35 times as on March 31, 2021. The company's debt coverage indicators have stood moderate with interest coverage ratio of 9.14 times during FY2022 (Prov.) against 6.80 times and DSCR of 2.36 times during FY2022 (Prov.) against 5.38 times in FY2021.
Acuité believes that the financial risk profile of the group will continue to remain healthy on account of group's conservative leverage policy and healthy debt protection metrics.

### Weaknesses

**Stagnating operational performance**

The group has reported operating income of Rs. 310 Cr in FY2022(Prov.) as against Rs. 266 Cr in FY2021. The growth is largely contributed by the increase in the prices accross the speciality chemical industry. The total quantity sold by the group on consolidated level during FY2022 stood at 10,786 Kg against 11,186 Kg in FY2021 and 10,729 Kg in FY2020. Hence there has been a deterioration of around 7% in the overall quantity sold during FY2022 from its previous year and the growth in the revenues is largely driven by increase in prices. However, it is evident from the EBITDA margins that company has been able to pass on the pricing to its customers. The operating margins have been on an increasing trend from 5.99% in FY2020 to 7.06% in FY2021 and 7.80% in FY2022(Prov.) The group has also diversified into many other products with higher margins which has helped them in maintaing stable margins.

**Susceptible to fluctuation in prices of raw material and forex rates**
The group's revenues and profitability remain susceptible to the cost of raw materials. The group's total raw material cost constitutes around ~80 percent of total sales. Major raw materials required by the group are monomers like dimethylamine, diethylamine, etc. which are 50 percent imported and 50 percent domestically procured. The group's profitability is exposed to adverse fluctuations in prices of these raw materials. However, given the group's established market position, it has been able to transfer the prices to the customers to some extent marked by its stable operating margins. Further, the group faces foreign exchange fluctuation risk as the group's average exports are around 30 percent. However, the forex risk is mitigated to an extent by a way of forward contract which acts as a natural hedge.

**Marginal deterioration in working capital operations**
Working capital operations have marginally deteriorated as evident from gross current assets (GCA) of 99 days for FY2022(Prov.) from 90 days for FY2021. The increase in GCA days is mainly contributed by increase in the inventory days. The inventory days stood at 30 during FY2022 (Prov.) against 17 during FY2021. The company has been securing more inventory from previous year in order to have ready availability of raw materials in case of any unforseen situations like covid which has increased its dependability on packing credit limits . Further, the debtors during FY2022 have increased marginally marked by debtor days of 54 during FY2022 against 47 in the year FY2021. The group's six month working capital utilisation as on March 2022 has been at around 70-75%.

## Rating Sensitivities

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

## Material Covenants

None

## Liquidity Position

**Strong**
The group has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals to the tune of Rs. 17 Cr. against obligations close to Rs. 5.05 Cr. depicting sufficient coushion between the accruals and the repayments. Going ahead, the group is expected to maintain accruals in the range of Rs. 18-20 Cr. during FY2023 & FY2024. Further, the group has made investments in short term liquid funds and has been able to take arbitrage benefit. The group has unencumbered cash and bank balances of around Rs. 10 crore as on 31st March 2022 and short term liquid investment in msutual fund of Rs. 12.25 Cr during FY2022. Further, the fundbased working capital limits of Packing Credit for SCPL are almost fully utilised, given the lower interest rate benefits while the non-fund based working capital limits are utilised at an average of 62% for the last six months ending March 2022. Further, for RMC the average utilisation for the fund based facility stood at around 43% and average utilization for non-fund based facility stood at around 71% for the last six months ending March 2022.

## Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term on account of sustainable revenue growth over the years, its experienced management, comfortable financial risk profile of the group, and its strong R&D Department. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability along with sustainable increase in its capacity utilisation. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and liquidity profile most likely as a result of higher than the envisaged working capital requirements.

## Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 310.26 | 266.45 |
| PAT | Rs. Cr. | 14.30 | 11.80 |
| PAT Margin | (%) | 4.61 | 4.43 |
| Total Debt/Tangible Net Worth | Times | 0.45 | 0.41 |
| PBDIT/Interest | Times | 9.14 | 6.80 |

## Status of non-cooperation with previous CRA (if applicable)
Not Applicable

## Any Other Information
Not Applicable

## Applicable Criteria
- Application Of 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
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm

## Note on Complexity Levels of the Rated Instrument
https://www.acuite.in/view-rating-criteria-55.htm

## Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|---|---|---|---|---|
| 13 Aug 2021 | Letter of Credit | Short Term | 36.00 | ACUITE A2 (Upgraded from ACUITE A3+) |
| | Working Capital Term Loan | Long Term | 0.49 | ACUITE BBB+ \| Stable (Assigned) |
| | Letter of Credit | Short Term | 8.50 | ACUITE A2 (Upgraded from ACUITE A3+) |
| | Proposed Bank Facility | Long Term | 4.07 | ACUITE BBB+ \| Stable (Upgraded from ACUITE BBB \| Stable) |
| | Cash Credit | Long Term | 4.94 | ACUITE BBB+ \| Stable (Upgraded from ACUITE BBB \| Stable) |
| 01 Sep 2020 | Letter of Credit | Short Term | 33.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Letter of Credit | Short Term | 8.50 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Cash Credit | Long Term | 4.94 | ACUITE BBB \| Stable (Upgraded from ACUITE BBB- \| Stable) |
| | Proposed Bank Facility | Long Term | 3.56 | ACUITE BBB \| Stable (Upgraded from ACUITE BBB- \| Stable) |
| 19 Nov 2019 | Proposed Bank Facility | Long Term | 5.00 | ACUITE BBB- \| Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 8.50 | ACUITE A3 (Reaffirmed) |
| | Cash Credit | Long Term | 4.94 | ACUITE BBB- \| Stable (Reaffirmed) |

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|---|---|---|---|---|
| | Letter of Credit | Short Term | 28.00 | ACUITE A3 (Reaffirmed) |
| 07 Dec 2018 | Cash Credit | Long Term | 4.94 | ACUITE BBB- \| Stable (Assigned) |
| | Letter of Credit | Short Term | 33.00 | ACUITE A3 (Assigned) |
| | Letter of Credit | Short Term | 8.50 | ACUITE A3 (Assigned) |

## Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---|---|---|---|---|---|---|---|
| Union Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.94 | ACUITE BBB+ \| Stable \| Reaffirmed |
| Union Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 8.50 | ACUITE A2 \| Reaffirmed |
| Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 36.00 | ACUITE A2 \| Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 4.07 | ACUITE BBB+ \| Stable \| Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE BBB+ \| Stable \| Assigned |
| Union Bank of India | Not Applicable | Working Capital Term Loan | Not available | Not available | Not available | 0.49 | ACUITE BBB+ \| Stable \| Reaffirmed |

## Contacts

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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.