

Press Release

Suparna Chemicals Limited

January 28, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 26.50 Cr.
Long Term Rating	ACUITE BBB / Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 12.50 crore bank facilities and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 14.00 crore bank facilities of Suparna Chemicals Limited (SCL). The outlook is '**Stable**'.

About SCL:

Mumbai based Suparna Chemicals Limited (SCL) was incorporated in 1980, it is an ISO 9001:2015 company engaged in manufacturing of speciality chemicals. The company was founded by Mr. R. N. Mandal. SCL specializes in manufacture of customized concentrates and solvents such as sodium and potassium alkoxides including sodium potassium alloy, potassium metal, potassium superoxide, ketonic resins and specialty plasticizers. Its products find utility in pharma, agrochemical, coating industries, amongst others. SCL operates out of three manufacturing units located in Ambernath and Vapi.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SCL to arrive at this rating.

Key Rating Drivers

Strengths

- Experienced management and established presence in industry**

Incorporated in 1980 by Mr. R.N Mandal, chemical engineer from IIT Kharagpur, SCL initially started its operation with manufacturing of synthetic ketonic resins and later with manufacturing of speciality plasticizers. The day to day operations of SCL are managed by the promoter family led by Dr. Suparna Mandal having experience of over a decade in the speciality chemicals industry. SCL is an approved supplier to Government of India for its specialized product offerings which finds applicability with Indian Defense Services. Along with production of metal alloys, oxides and alkoxides, the company became the indigenous supplier of Self-Contained Self Rescuer apparatus in India. Its products find application in pharma, agrochemical industries amongst others.

SCL caters to domestic as well as overseas market with exports comprising ~54.3 percent of its total sales for FY2019. The company has over the years developed a reputed client base with its customers such as Evonik Performance Materials GmbH. With adequate quality assurances and continued customer specified offerings, SCL has been able to cement its position in this industry with strong and long-standing relationship with its customer base in Indian and overseas market.

Acuite believes that the company's growth prospects will be supported by management's extensive experience and established track record of operations in speciality chemicals industry.

- Healthy financial risk profile**

SCL's financial risk profile is supported by healthy network and debt protection metrics. SCL's network stood at Rs. 57.4 crore as on March 31, 2019 as against Rs. 48.1 crore as on March 31, 2018. Network of Rs. 57.4 crore comprised accumulated reserves to the tune of Rs. 50.8 crore. The gearing (debt-equity) of the company stood 0.1 times as on March 31, 2019, the gearing has relatively remained consistent at this level

over the past three financial years. The total debt of Rs. 6.4 crore as on March 31, 2019 comprises short term working capital facilities, with an average utilization of bank limits of 10.1 percent for six months ended October, 2019. The Total Outside Liabilities/ Total Networth (TOL/TNW) stood healthy at 0.4 times as on March 31, 2019 as against 0.3 times as on March 31, 2018. The company demonstrated a very strong interest coverage indicators marked by Interest Coverage Ratio (ICR) which stood at 23.9 times for FY 2019 and 27.7 times for FY 2018. Although high, the deterioration in ICR is on account of decline in operating margins for FY 2019.

Acuite believes that the financial risk profile of SCL will continue to remain healthy over medium term backed by managed debt protection metrics.

Weaknesses

• Moderate scale of operations and decline in profitability margins

SCL saw an increase in operating income earned in FY 2019 which stood at Rs. 74.1 crore as compared to Rs. 58.9 crore for FY 2018. Despite its long-standing experience and increase in operating revenue, SCL's scale of operations remains moderate. SCL boasts of strong product portfolio and low competition in domestic market, but its revenue ranges between Rs. 41.5 – 74.1 crore for FY 2017 to FY 2019. While at the same time, the company saw persistent fall in operating margins. The operating margins declined from 23.3 percent for FY 2018 to 18 percent for FY 2019, indicating an increasing competition. PAT margins also declined at 12.6 percent for FY 2019 as against 15.9 percent for FY 2018. Also, a change in product mix is observed in the total revenue contribution of each product in near to medium term.

Acuite believes that the company's ability to scale-up its operations while maintaining current levels of profitability would be key credit monitorable.

• Susceptible to competitive landscape

SCL finds competition from international players. Many players have emerged in the international and domestic markets having access to attractive consumer-growth markets. These players based in emerging-markets have an advantage of their lower cost base to establish a presence based on price. With the strict focus of the competitors towards lower prices, SCL faces stiff competition from other players limiting the pricing flexibility of the company. Besides the existing players, the emergence of new players and substitutes would add to the intensity of the competition.

Acuite believes that the company will be susceptible to changing competitive landscape with new and emerging players.

Rating Sensitivity:

- Significant decline in scale of operation and profitability
- Increase in GCA (gross current asset) days from existing levels.

Material Covenants

Adjusted Tangible Networth to be maintained at Rs. 66.96 crore as on March 31, 2020 (with maximum variation of negative 5 percent)

Liquidity: Adequate

The liquidity profile is adequate marked by healthy net cash accruals. The company has generated an average net cash accruals of Rs. 10.6 crore for last two years. The company maintains unencumbered cash and cash balances of Rs. 0.5 crore as on March 31, 2019. The company also has investments in the form of fixed deposits of Rs. 24.2 crore as on March 31, 2019. Its current ratio stood healthy at 2.8 times as on March 31, 2019. SCL's average utilization of its cash credit facility and letter of credit (as a sub-limit of cash credit) for six months ended October, 2019 was 10.1 percent. The company has outstanding debtors of Rs. 15.5 crore as on September 30, 2019 (provisional). The company's ability to recover debtors on a timely manner will remain a key monitorable for SCL to maintain a healthy liquidity profile.

Outlook: Stable

Acuite believes that SCL will maintain a 'Stable' outlook and benefit over the medium term owing to its promoters' extensive experience in the chemical industry and established relations with clientele. The outlook may be revised to 'Positive' in case of significant increase in scale of operations and stabilization in profitability. Conversely, the outlook may be revised to 'Negative' if there is further decline in profitability metrics and increase in GCA days.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	74.14	58.87
Profit After Tax (PAT)	Rs. Cr.	9.34	9.41
PAT Margin	(%)	12.60	15.98
Total Debt/Tangible Net Worth	Times	0.11	0.12
PBDIT/Interest	Times	23.87	27.70

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

*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	12.00	ACUITE BBB/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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