

Press Release

Sicagen India Limited

June 23, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 43.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.43.00 Cr bank facilities of Sicagen India Limited (SIL). The outlook is '**Stable**'.

Incorporated in June 2004, Sicagen India Limited (SIL) is a Chennai-based (Tamilnadu) public limited company (listed on NSE and BSE). SIL operates across diversified business verticals including trading of building materials (majorly steel pipes/tubes, TMT bars & cables), sales & servicing of Power & Control Systems, Industrial Packaging (manufacturing of drums, barrels, boats & specialty chemicals. SIL is an ISO 9001:2015 Certified Company. SIL is an authorized distributor for Tata Steel BSL Ltd, Steel Authority Of India Ltd, Jsw Steel Ltd, Jindal Pipes Limited, Tata Steel Limited, Jindal Steel & Power Ltd, , Apl Apollo Tubes Ltd, Jindal (India) Limited, Finolex Cables Limited, Bhushan Power & Steel Limited, Maharashtra Seamless Limited Finolex in cables and ACC Cements, Dalmia Cements, Astral Pipes, Ajay Pipes among others. SIL has manufacturing units for specialty chemicals (in Pondicherry) and drums (in Chennai). SIL has 3 subsidiaries - Wilson Cables Private Limited (WCPL), a Singapore-based manufacturer of cables for industrial and other critical applications; Danish Steel Cluster Private Ltd (DSCPL), a Bengaluru-based company specializing in precision fabrication of stainless steel; and South India House Estates and Properties Ltd, which maintains land assets.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of SIL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record, extensive industry experience of the promoters**

SIL is a part of AM International group since 1954, headquartered in Singapore. Mr. Ashwin Muthiah is the Founder and Chairman of AM International group. AM International group diversified its operations into various sectors like Fertilizers & Supply Chain, Petrochemicals, Infrastructure Services, Medtech and Green Solutions. Its operations are spread across 8 countries in South East, South & West Asia and Europe. SIL is Chennai-based Company and engaged in trading of building material and Power & Control Systems, and also manufactures drums, cables, boat building and specialty chemicals. SIL is a single point of contact for supplying the building materials and it has a network of 26 sales offices cum warehouses across India. Presence at multiple locations provides diversification in terms of geography as well as commodities to be handled based on the geographical demand. This shall enable the company to acquire new clients with better rate realisation and ensure steady business. SIL sources materials from different manufacturers and supplies to its customers. Major suppliers include Tata Steel BSL Ltd, Steel Authority Of India Ltd, Jsw Steel Ltd, Jindal Pipes Limited, Tata Steel Limited, Jindal Steel & Power Ltd, , Apl Apollo Tubes Ltd, Jindal (India) Limited, Finolex Cables Limited, Bhushan Power & Steel Limited, Maharashtra Seamless Limited Finolex in cables; Jain, Astral and Ajay in PVC; Dalmia Cement (Bharat) Limited among others while its customer base includes contractors, builders and industrial buyers. Acuite believes that the well-experienced directors and professional and experienced management in the building material supply industry, established relations with its stake holder's shall enable its future growth.

- **Diversified revenue stream**

SIL has a diversified stream of revenue with trading goods contributing around 83-85%, manufacturing goods contributing around 13-15 % and 3-5 % from services and other operating revenues to the total income in FY21 and FY20. In terms of divisions for FY21, building materials trading division contributed 74% (PY: 82%), Power & Control Systems division contributed 7 % (PY: 7%) and rest of income are from Industrial Packaging, Speciality Chemicals, Boat Building. Diversity in trading & manufacturing aids the company in reducing the concentration risks as well cyclicity associated with a particular commodity or industry to an extent.

- **Healthy financial risk profile**

SIL financial profile is healthy as marked by healthy capital structure, comfortable coverage indicators and healthy liquidity. The networth is healthy at around Rs 388.84 Cr as on March 31, 2021 as against Rs.375.08 Cr as on March 31, 2020, backed by steady accretion to reserves. The capital structure remains healthy with gearing of less than 0.17 times and Total outside Liabilities to Tangible Net Worth (TOL/TNW) below 0.40 times for past three years through as on March 31, 2020 due to limited capex requirements and resulting in low external borrowings. The company's coverage indicators are comfortable indicated by interest coverage ratio (ICR) 4.55 times and Net Cash Accruals (NCA)/Total Debt (TD) stood at 0.33 times for FY2021 vis-à-vis 2.62 times and 0.20 times respectively in FY2020. SIL has adequate liquidity, supported by unencumbered cash and bank balances and liquid investments amounting to Rs. 28.04 Cr as on March 31, 2021. Acuite believes that financial risk profile should remain healthy over the medium term, supported by healthy accrual, nil long-term debt, and adequate liquidity with no significant debt-funded capital expenditure plans in near future.

Weaknesses

- **Working capital intensive nature of operations**

The company's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 135-156 days during last 3 years ended with as on March 31, 2021. SIL offered credit period of around 85-103 days to its customers during last 3 years ended March 31, 2021. Its inventory days stood at 36-42 days during last 3 years ended March 31, 2021. All its purchases are against payment only leading to moderate utilisation of its working capital limits at about 47 per cent for last six months through March 2021. Acuite believes that with competitive and trading nature of operations, the company needs to maintain inventory while offering credit keeps the operations working capital intensive and the management of working capital cycle shall be monitored closely.

- **Deterioration operating performance in recent years; limited bargaining power with key principals and geographical concentration**

During FY21, SIL's total income declined by ~20% to Rs.347.78 Cr from Rs.434.15 Cr in FY20, majorly due to fluctuation in steel prices and slowdown in the end-user sectors including construction and real estate due to COVID-19. Although, there is consistent decline in revenue growth but SIL's EBITDA margins have been rising due to better absorption of fixed costs. The EBITDA margin rose to 3.42 % in FY21 (FY20: 1.98 %; FY19: 1.05 %). SIL operations and business performance are highly dependent on the performance of its key principals. Furthermore, limited value addition owing to trading nature of business led to modest operating margin despite revenue increasing over the years. Additionally, SIL's revenue is mainly derived from the state of Tamilnadu, which exposes geographical concentration. The established dealer network and customer relationships the promoters have helped partly mitigate this risk. FY2021, SIL has healthy market position in Tamilnadu, the state accounts about 50 percent of its total revenues, Andhra Pradesh 16 percent Kerala 13 percent and Karnataka 13 percent and Pondicherry 3 percent. Acuite believes that due to limited value addition and low bargaining power, the margins are expected to remain in the similar range over the medium term

Liquidity Position: Adequate

SIL's liquidity is adequate liquidity marked by adequate net cash accruals to its maturing debt obligations and efficient bank utilisation; albeit constrained by Working capital intensive nature of operations. The company generated cash accruals of Rs.3.98 Cr to 10.52Cr during the last three years through 2019-21, while its maturing debt obligations nil during the same period. The cash accruals are estimated to remain around Rs.9 Cr to 12 Cr during 2022-24 while their repayment obligations are miniscule during the same period. Its operations are working capital intensive with GCA of about 135-156 days in FY2021; comfortable cash accruals led to lower reliance on working capital borrowings at 47 per cent during the last 6 months period ended March 2021. The SIL maintains unencumbered cash and bank balances of Rs.28.04 Cr as on March 31, 2020. The current ratio stood comfortable at 2.78 times as on March 31, 2021. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its miniscule repayment obligations and its internal accruals and liquid surplus to be

sufficient to meet its incremental working capital requirements.

Rating Sensitivities

- Higher-than-expected operating income (OI) along with improvement in profitability
- Improvement in working Capital cycle

Material covenants

None

Outlook: Stable

Acuite believes that SIL will continue to benefit over the medium term from its established market position in key business segments, its diversified revenue profile, and healthy financial risk profile. The outlook may be revised to 'Positive' if the company achieves significant improvement in its revenues and operating profitability and sustained improvement in its cash accruals while maintaining its healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' if SIL's revenue or profitability declines further; lower-than-expected revenue or operating profitability or incremental investment in group entities, or substantial, debt-funded capex weakens financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	347.78	434.15
PAT	Rs. Cr.	5.86	2.12
PAT Margin	(%)	1.68	0.49
Total Debt/Tangible Net Worth	Time0073	0.08	0.09
PBDIT/Interest	Times	4.55	2.62

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>
- Entities In Trading Sector - <https://www.acuite.in/view-rating-criteria-61.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*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	15.00	ACUITE BBB-/Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Assigned)

Contacts

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About Acuité Ratings & Research:

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