

Press Release
Sicagen India Limited

September 02, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	27.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	43.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

The reaffirmation of ratings factors in SIL's established operational track record and extensive experience of promoters in the trading business along with established relationship with reputed customers ensuring regular orders. The ratings also factor in its diversified revenue profile, large distribution network, along with its healthy financial risk profile marked by its comfortable leverage and coverage metrics. The ratings are, however, constrained by SIL's thin operating margins inherent to the trading nature of the business, and the intense competition in the trading business, given the low barriers to entry and vulnerability of demand to cyclical in end-user industries.

About the Company

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, 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 Pondichery) 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

Acuité 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 PV C; Dalmia Cement (Bharat) Limited among others while its customer base includes contractors, builders and industrial buyers. Acuité 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.

Improvement in FY22 business performance

SIL's revenue increased at 27.27% y-o-y growth to Rs.442.61 Cr in FY22, owing to an increase in the sales realisation and sales volume. SIL reported 25% growth y-o-y performance during Q1FY23. The company reported Rs.106.89 Cr during Q1FY23 as against Rs.84.95 Cr Q1FY22. Acuité believes SIL's revenue to improve moderately over the medium term due to an increase in its capacity utilisation. The company's EBITDA margin rose to 3.76% in FY22 (FY21: 3.42%, FY20: 1.98%) because of a higher increase in the sales realisation. However the PAT Margin significantly declined to 0.23% from 1.68% due to Impairment of Investments in its subsidiary company to the tune of Rs.7.89 Cr.

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 FY22 and FY21. In terms of divisions for FY22, building materials trading division contributed 75% (PY: 75%), Power & Control Systems division contributed 4 % (PY: 5%) 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 cyclicalities 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 401.19 Cr as on March 31, 2022 as against Rs.388.84 Cr as on March 31, 2021, backed by steady accretion to reserves. The capital structure remains healthy with gearing of less than 0.10 times and Total outside Liabilities to Tangible Net Worth (TOL/ TNW) below 0.25 times for past three years through as on March 31, 2022 due to limited capex requirements and resulting in low external borrowings. The company's coverage indicators are comfortable indicated by interest coverage ratio

(ICR) 3.88 times and Net Cash Accruals (NCA)/Total Debt (TD) stood at 0.21 times for FY22 vis-à-vis 4.55 times and 0.33 times respectively in FY21. SIL has adequate liquidity, supported by unencumbered cash and bank balances and liquid investments amounting to Rs. 19.95 Cr as on March 31, 2022. Acuité 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 132-156 days during last 3 years ended with as on March 31, 2022. SIL offered credit period of around 79-103 days to its customers during last 3 years ended March 31, 2022. Its inventory days stood at 33-42 days during last 3 years ended March 31, 2022. All its purchases are against payment only leading to moderate utilisation of its working capital limits at about 32 per cent for last six months through May 2022. Acuité 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.

Thin profit margins and intense competition in a fragmented and commoditised market

SIL's OPM remains modest due to limited value addition and the intensely competitive nature of the business. Despite improvement in FY22 due to inventory gains, the operating margin is expected to remain in the range of 3-5% in the near-to-medium term. The Company's operations are trading of Building Materials such as Steel Pipes, Steel, PVC Pipes, Cables, Power & Control Equipment, Spares and others. As the market is highly fragmented and commoditised, it faces price-based competition that keeps the operating profitability under check.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Healthy growth in operating income and improvement in profit margins on a sustained basis
- Stretched working capital cycle or any large, debt-funded capex weakening the financial risk profile and liquidity

Material covenants

None

Liquidity Position: Adequate

SIL's liquidity is adequate 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.6.73 Cr to 10.52 Cr during the last three years through 2020-22, while it's maturing debt obligations nil during the same period. The cash accruals are estimated to remain around Rs.10 Cr to 15 Cr during 2023-25 while their repayment obligations are miniscule during the same period. Its operations are working capital intensive with GCA of about 132-156 days in FY22; comfortable cash accruals led to lower reliance on working capital borrowings at 32 per cent during the last 6 months period ended June, 2022. The SIL maintains unencumbered cash and bank balances of Rs.19.95 Cr as on May, 2022. The current ratio stood comfortable at 3.19 times as on March 31, 2022. Acuité 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.

Outlook: Stable

Acuité 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 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	442.61	347.78
PAT	Rs. Cr.	1.01	5.86
PAT Margin	(%)	0.23	1.68
Total Debt/Tangible Net Worth	Times	0.08	0.08
PBDIT/Interest	Times	3.88	4.55

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>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Jun 2021	Bank Guarantee	Long Term	8.00	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	1.50	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	18.50	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- Stable Reaffirmed

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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.

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