Press Release

Sadhana Nitro Chem Limited (SNCL)
September 12, 2024

Ratings

Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Term Loans	43.55	IVR BBB/Stable (IVR Triple B with Stable Outlook)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	simple
Long Term Fund Based Bank Facilities – Term Loans	17.39	IVR BBB/Stable (IVR Triple B with Stable Outlook)	--	Assigned	simple
Long Term Fund Based Bank Facilities – Cash Credit & Export Finance	37.50	IVR BBB/Stable (IVR Triple B with Stable Outlook)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	simple
Long Term Fund Based Bank Facilities – Cash Credit & Export Finance	20.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	--	Assigned	simple
Short Term Fund Based Bank Facilities – EPC	3.00	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	Reaffirmed	simple
Total	**Rs.121.44 Crore (One hundred twenty-one and forty-four crore)**				

Details of Facilities are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned/reaffirmed its rating assigned to the bank facilities due to diverse geographical presence, capacity expansion and diversification of product portfolio, advantage of backward integration into manufacturing of various specialty chemicals from basic raw material – Benzene, and long track record of operations with experienced promoters.

The Stable outlook reflects growing scale of operation and profitability margins along with the comfortable capital structure, debt protection metrics and adequate liquidity positions over FY25-FY27.

Key Rating Sensitivities:

Upward Factors

- Increase in scale of operation and profitability margins.
- Sustenance of the capital structure and improvement in debt protection metrics.

- **Downward Factors**
- Significant and sustained deterioration in revenue and/or profitability margin on account of competitive pressure from imports, or due to volatility in input prices or foreign exchange rates.
- Any significant cost or time overrun in the implementation of the ongoing capex.
- Elongation in the working capital cycle, adversely impacting the company's liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Diverse geographical presence**

  The company is active in both the domestic as well as in foreign markets. In FY24, India contributed around 61% of overall sales, with about 39% coming from the 21 different foreign markets. The Netherlands, Thailand, the United States, Belgium, Switzerland, China, and Japan are SNCL's principal international markets.

- **Capacity expansion and diversification of product portfolio**

  The company has gained expertise in manufacturing several downstream derivatives of Nitrobenzene such as Meta Amino Phenol (MAP), Para Amino Phenol (PAP), Aniline 2,5 Di Sulphonic Acid, ODB2 Colourformer along with other products. The products of the company have diverse uses and applications in several industries ranging from paper, pharmaceutical, agro chemicals, thermal dyes, light stabilizer, aerospace, dyes, industrial adhesives, and hair dyes etc.

To cater to the demand across the product segments company is expanding its manufacturing facility. The company has already started production through its first plant of Para Amino Phenol (PAP) of capacity 3000 TPA which is expanded to 6000 TPA as on date, and which will be in course of time expanded to 36000 TPA.

The addition of PAP product will provide SNCL strong advantage over overseas counterparts as it will be produced in India at relatively lower rates and the manufacturing process will be environment friendly. Most overseas manufacturers produce PAP from Para Nitro Chlorobenzene which is a highly polluting manufacturing process and where the level of impurities in the final product are quite high. In contrast, SNCL uses a unique and complex production process whereby PAP is produced from Nitrobenzene where the final output is of high purity and the process does not entail much pollution.

Total project cost is Rs.265 crore out of which Rs.163.69 crore has already been invested as on August 31,2024.

- **Advantage of backward integration into manufacturing of various specialty chemicals from basic raw material – Benzene**

  SNCL's basic raw material is Benzene, which it converts to Nitrobenzene using a unique process. Nitrobenzene is captively consumed to produce Meta Aminophenol which is the base chemical which can be used for producing around 12 different products, one of which is ODB2, which is used as a coating chemical in the production of thermal paper. SNCL also uses Nitrobenzene to produce Para Aminophenol (PAP) which is a key ingredient in the production of paracetamols. SNCL's production processes involve the use of complex chemistry to ensure significantly lower pollution levels compared with conventional production methods used by most international peer companies. Its production processes also result in superior quality products will low impurity levels.

  The company is in the process of setting up an MMDPA plant. MMDPA is an intermediate required for manufacturing ODB2. MMDPA is currently partly sourced locally and imported from China. Once MMDPA is in place company's production process will become 100% fully backward integrated and will result in cost saving. As estimated by the company, with inhouse MMDPA production, it will save an amount of US$2 (Rs.166) per Kg of ODB2 manufactured.

Growing scale of operations with overall stable financial profile

SNCL revenue has increased by 29.49% to Rs. 188.86 crore in FY24 due to increase in demand of the products. Profitability margins has increased with EBIDTA margin of 23.45% in FY24 (FY23:15.56%).

SNCL's capital structure in terms of overall gearing has increased to 0.95x at the end of FY24 (FY23:0.35x) as SNCL has borrowed additional term debt for its capex and incremental working capital debt. Large increase in debt from Rs.132.32 crore to Rs.220.72 crore is attributed to infusion of unsecured loans of Rs.76.3 crore by promoters to fund capex as well as increased working capital requirements

Gearing is expected to increase due to infusion of promoters loan in FY25 and improve thereafter from FY26 onwards due to repayment of term loans and growth in net worth due to higher profits from increased capacities. Debt protection metrics in terms of interest coverage ratio remained adequate at 2.57x at the end of FY24 (FY23: 2.33x); while total debt to GCA stood at 9.60x in FY24 (FY23: 9.57x). DSCR at the end of FY24 was 1.06x and is expected to remain adequate through FY25-FY27 with expected strong cash accruals for repayments.

- **Long track record of operations with experienced promoters**

  The company has more than four decades of experience in the specialty chemical business. Over the years it has been able to create global presence on account of its focus on R&D and quality processes. It has a manufacturing facility at Roha, MIDC. It is listed on the BSE. Mr. Asit Javeri (Executive Chaiman) has been associated with the company for more than 38 years. Prior to joining the company, he had experience of 10 years of running a chemical company. Mr. Abhishek Javeri (Managing Director) has experience of 15 years in the chemical industry and has been associated with the company since 2007. Longstanding presence of the promoters and directors in the industry has helped the company to establish strong relationships with customers and suppliers, diversify the product profile, and expand capacity.

Key Rating Weaknesses

- **Profitability exposed to volatility in raw material prices as well as finished goods.**

Both changes in the price of raw materials and finished goods can affect profitability. Sulphuric Acid, benzene, and Caustic Soda are some of the main raw ingredients, and raw material costs represent roughly 45–50% of total sales. Any unfavourable change in the price of raw materials might influence profitability. In FY24 and in current year, there has been dumping of PAP as well as ODB2 in the Indian market by Chinese manufacturers leading to depressed prices of these products.

- **Working capital intensive operations**
  SNCL's activities are working capital intensive, as evidenced by a high operating cycle. The extended inventory holding, and receivable days are the main causes of this. The inventory days were 257 in FY24, reduced from 294 days in FY23. High inventory days are attributed to the need to maintain inventory in the UK and Europe to be able to supply clients on Just in Time basis. Further, collection period stood high at 218 days in FY24 as against 150 days in FY23; however, this is attributed to the company reporting large revenues in March, leading to high debtors at year end.

- **Pricing pressure from imports**
  There was large scale dumping of specialty chemicals (including PAP) by Chinese companies in FY24 which is continuing in current year as well due to low demand in China. In case of SNCL the company undertook capex of PAP plant in FY24 considering that profit margins for this product would be under pressure due to dumping. SNCL along with other pharma industry participants have approached the Department of Pharmaceuticals to introduce Anti- Dumping Duty or Minimum Import Price. Till the time there will be pricing pressure on the PAP.

Analytical Approach: Standalone Approach

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)
[Financial Ratios & Interpretation (Non- Financial Sector)](#)

[Criteria of assigning Rating Outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity –Adequate

The liquidity position is adequate as reflected from the comfortable current ratio and quick ratio as of 31st March 2024 has been 1.74x and 1.10x respectively. The DSCR of the company was adequate at 1.06x for FY24. The average utilisation for overall working capital facilities stood at ~91% for the 15 months ended June-24 and cash and cash equivalents stood at Rs.0.30 Crore as on 31st March 2024.The scheduled term loan repayments are Rs. 17.18 crore, Rs.16.76 crore and Rs. 10.68 respectively for FY25-FY27 and GCA are expected to be from Rs.29 crore to Rs. 55 crore respectively for FY25-FY27.

About the Company

Sadhana Nitro Chem Ltd (SNCL) is 50 years old publicly listed, Mumbai based company manufacturing specialty chemical intermediates, predominantly for overseas markets. SNCL has its manufacturing facility located in Roha MIDC (Maharashtra Industrial Development Corp), SNCL core strength lies in manufacture of several downward derivatives of Nitrobenzene such as Meta Amino Phenol, Para Amino Phenol, Aniline 2,5 Di sulphonic Acid, ODB2 Colour former along with other products.

Financials Standalone

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	145.85	188.86
EBITDA	22.69	44.29
PAT	4.59	7.41
Total Debt	131.85	220.72
Tangible Net Worth	228.55	232.29
EBITDA Margin (%)	15.56	23.45
PAT Margin (%)	3.11	3.84
Overall Gearing Ratio (x)	0.58	0.95
Interest Coverage (x)	2.33	2.57

** As per Infomerics Standard*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
Press Release			**September 12,2024**		**June 22,2023**	**--**	**--**
1	Long Term Fund Based Bank Facilities – Term Loans	Long Term	43.55	IVR BBB/Stable	IVR BBB/Stable	--	--
2	Long Term Fund Based Bank Facilities – Term Loans	Long Term	17.39	IVR BBB/Stable	--	--	--
3	Long Term Fund Based Bank Facilities – Cash Credit & Export Finance	Long Term	37.50	IVR BBB/ Stable	IVR BBB/ Stable	--	--
4	Long Term Fund Based Bank Facilities – Cash Credit & Export Finance	Long Term	20.00	IVR BBB/ Stable	--	--	--
5	Fund Based Bank Facilities – EPC	Short Term	3.00	IVR A3+	IVR A3+	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities – Term Loans	--	--	--	60.94	IVR BBB/Stable
Long Term Fund Based Bank Facilities – Cash Credit & Export Finance	--	--	--	57.50	IVR BBB/Stable
Short Term Fund Based Bank Facilities – EPC	--	--	--	3.00	IVR A3+

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-SadhanaNitro-sep24.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable
Annexure 4: List of companies considered for consolidated analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.