

Press Release

**Sarna Chemicals Pvt Ltd.**

October 04, 2019

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Fund Based Long Term – Term Loan	4.06	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)
2	Fund Based Long Term – CC	3.50	
3	Fund Based Short Term – EPC/PCFC	9.50	IVR A2 (IVR A Two)
3	Non Fund Based Letter of Credit / Bank Guarantee	5.00	
	<b>Total</b>	<b>22.06</b>	

**Details of facilities are in Annexure 1**

**Rating Rationale**

The rating derives strength from company's experienced promoters, steadily growing operations, reputed clientele, healthy profitability and comfortable gearing. The rating however is constrained by profit susceptibility due to fluctuation in raw-material cost, competitive nature of industry and working capital intensive operations.

**Key Rating Sensitivities**

- **Upward Rating Action -**
  - Maintaining the sales growth and continuing its technological innovations would help the company to stay ahead in the competition and could call for a positive rating action
- **Downward Rating Action -**
  - Further elongation of operating cycle resulting from non efficient working cycle management would put additional stress on the liquidity and call for a negative rating action

## **Detailed Description of Key Rating Drivers**

### **Key Rating Strengths**

#### ***Experienced promoters***

Mr. Savindersingh Jaswantsingh Sarna, Chief Managing Director of the company, has an extensive experience of over three decades in the industry. He is a gold medalist in B.Sc (Tech) from UDCT, Mumbai. He looks into production and R&D for the company. He is also an active member of the Vapi Industries Association (VIA), Member of Advisory Committee of Central Excise & Customs and Executive Member of Gujarat Dyestuff Manufacturers Association (GDMA). Mr. Sarna is accompanied by Mr. Mohit Rajani, M.D (Pharmacology) having an experience of 5 years. The promoters are assisted in the day-to-day operations by experienced professionals with significant industry experience. The company has been able to establish a good foothold in the region and with its suppliers owing to long experience of the promoters.

#### ***Steadily growing operations & reputed clientele with long standing relationship***

The company has seen a steadily growing top-line owing to its regular client base and repeat orders that it receives from them. It has successfully established a mutually enriching relationship with its clients. The company clientele includes some of the reputed domestic as well as international firms like the Huntsman group, IPCA laboratories, Colourtex etc.

#### ***Healthy profitability margins***

The company's EBITDA margin increased from 12.24% in FY18 to 16.6% in FY19 owing to the increased scale of operations whereas the PAT margin increased from 5.12% in FY18 to 9.87% in FY19. The company has successfully managed to maintain and improve its profitability. The gross cash accruals stood at Rs.16.88 Cr. in FY19.

#### ***Comfortable gearing and debt coverage indicators***

The overall gearing of the company has been comfortable as on account closing days of last three years. Long term debt-equity ratio stood at 0.08x as on March 31st 2019 as against 0.16x in FY18 with a strong interest coverage ratio of 18.78x for the same period. The Total Outside Liabilities/Tangible Net worth (TOL/TNW) also stood comfortable at 0.65x in FY19.

## **Key Rating Weaknesses**

### ***Profit susceptibility due to fluctuation in raw-material cost and foreign currency risk***

Although the company has a well-established network of suppliers, it is susceptible to changes in prices of the raw materials as any fluctuations in procurement cost could lead to a substantial change in its bottom-line owing to the fact that raw materials cost alone contributes around 55 to 60% of company's total cost of production. To add, the raw materials are mainly derived from Benzene which is a natural constituent of crude oil. As there is a positive correlation with crude oil prices and any increase in the price of crude oil would lead to increase in the price of raw materials for company. The company hedges itself through the uses of PCFC facility from banks. The management has indicated there is no open position as on March 31, 2019.

### ***Highly competitive industry albeit superior process chemistry a comfort factor for the company***

Owing to the competitive nature of the industry, the SCPL faces stiff competition from other numerous registered players based out of the same geographical region. As a direct consequence of this intensely competitive environment, the pricing power could be volatile. The company management claims to have a superior manufacturing process chemistry that gives SCPL comparative advantage due to the uniqueness of their manufacturing process.

### ***Working capital intensive nature of operations***

The average collection period for SCPL was approximately 57 days and average inventory of 105 days in FY19. This implies working capital intensive operations where much of the company cash is locked up in inventory and with the customers. On average, the company takes around 78 days to pay its suppliers and thus the cash conversion cycle for the company was 84 days in FY19.

## **Analytical Approach & Applicable Criteria:**

- Standalone
- Rating Methodology for manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

**Liquidity**

Average liquidity characterised by comfortable gross cash accruals and minimal term repayments. Liquidity is supported by undrawn bank limits where the company has utilised 77% of its working capital limits on an average for the past one year. ICR and DSCR indicates very comfortable liquidity position even under stress.

**About the company**

Sarna Chemicals Pvt. Ltd. (SCPL) incorporated in year 1989, is into manufacturing of dye intermediates, pigment intermediates and chemical intermediates. The company is established as private limited company and has two manufacturing sites located at Vapi, Gujarat. SCPL's principal products are chemicals intermediates and dyes which are used for commercial purposes in textiles and in pharma based utilities.

**Financials (Standalone)**

**(Rs. Crore)**

<b>For the year ended / As on</b>	<b>31-Mar-18 (A)</b>	<b>31-Mar-19 (A)</b>
Total Operating Income	99.76	133.57
EBITDA	12.21	19.17
PAT	5.13	11.39
Total Debt	21.61	16.39
Tangible Net worth	45.55	56.94
EBIDTA Margin (%)	12.24	14.36
PAT Margin (%)	5.12	8.42
Overall Gearing ratio (x)	0.47	0.29

\* Classification as per Infomerics' standards

**Any other information: N.A**

**Rating History for last three years:**

<b>Name of Instrument/ Facilities</b>	<b>Current Rating (Year 2019-20)</b>			<b>Rating History for the past 3 years</b>		
	<b>Type</b>	<b>Amount outstanding (Rs. crore)</b>	<b>Rating</b>	<b>Rating assigned in 2018-19</b>	<b>Rating assigned in 2017-18</b>	<b>Rating assigned in 2016-17</b>
Fund Based Facilities	Long Term (TL & CC)	7.56	IVR BBB + /Stable Outlook	--	--	--

Fund Based Facilities	Short Term (EPC/PCFC)	9.50	IVR A2	--	--	--
Non - Fund Based Facilities	Short Term (LC/BG)	5.00		--	--	--
	<b>Total</b>	<b>22.06</b>				

**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](http://www.infomerics.com).

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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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**Annexure 1: Details of Facilities**

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (CC)	--	--	--	3.50	IVR BBB+ / Stable Outlook
2	Long Term Fund Based (Term Loan)	--	--	60 months	4.06	
3	Short Term Fund Based (EPC/PCFC)	--	--	--	9.50	IVR A2
4	Short Term Fund Based (LC/BG)	--	--	--	5.00	
<b>Total</b>					<b>22.06</b>	