



## Press Release

### Sarna Chemicals Private Limited [SCPL]

November 05, 2020

Sl. No.	Instrument/Facility	Amount (INR Crore)	Current Ratings	Rating Action
1.	Long Term Fund Based Facility – Term Loan	INR0.30 Cr outstanding (Reduced from INR4.06 Cr.)	IVR BBB+/Positive (IVR Triple B Plus with Positive Outlook)	Outlook revised to Positive from Stable
2	Long Term Fund Based Facility – Cash Credit	3.50	IVR BBB+/Positive (IVR Triple B Plus with Positive Outlook)	Outlook revised to Positive from Stable
3	Short term Fund Based Facility – EPC/PCFC	9.50	IVR A2 (IVR A Two)	Reaffirmed
4	Short Term Non Fund Based Facility –Letter of Credit / Bank Guarantee	5.00	IVR A2 (IVR A Two)	Reaffirmed
	<b>Total</b>	<b>18.30</b>		

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

SCPL's rating outlook has been revised to positive from stable due to increase in demand of certain speciality chemicals produced by the company leading to substantial increase in the revenue & profitability in H1FY21. Further, current rating continues to derive strength from company's experienced promoters, steadily growing operations & reputed clientele with long standing relationship, healthy profitability margins and comfortable gearing and debt coverage indicators. However, the rating strengths are partially offset by profit susceptibility due to fluctuation in raw-material cost and foreign currency risk, highly competitive industry albeit superior process chemistry a comfort factor for the company and working capital intensive nature of operations



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### Key Rating Sensitivities:

#### Upward Factor

- Increase in scale of operation & profitability margins
- Sustenance of capital structure

#### Downward Factor

- Efficient Working Capital Management
- Moderation in the capital structure with deterioration in overall gearing
- Any deterioration in liquidity profile on a sustained basis

### Key Rating Drivers with detailed description

#### Key Rating Strengths

##### ***Experienced promoter***

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 around a decade. 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, BAE Systems GCS International Ltd, Archroma Germany GmbH etc. Total operating income had increased to INR153.61 Crore in FY20 (FY19: INR 133.57 crore; FY18: INR99.76 crore : FY17: INR 73.89) at a CAGR of



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around 27.63% from FY-17 to FY-20. SCPL has achieved sales of INR 120.13 crore in first half of FY-21.

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

The company's EBITDA margin increased from 12.23% in FY18 to 22.04% in FY20 owing to the increased scale of operations whereas the PAT margin increased from 5.11% in FY18 to 14.96% in FY20. The company has successfully managed to maintain and improve its profitability over the years. The gross cash accruals stood at Rs.27.31 Cr. in FY20 against the repayment obligation of INR2.57 Cr in FY20. SCPL has achieved sales of INR120.13 crore and EBITDA of INR INR37.40 Cr in first half of FY-21 (i.e.H1FY21). SCPL has unexecuted order book of INR 72.51 crore which is to be executed till March-21.

### ***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 0.03x as on March 31<sup>st</sup>, 2020 against 0.08x in FY19 with a strong interest coverage ratio of 23.76x for the same period. The Total outside Liabilities/Tangible Net worth (TOL/TNW) also stood comfortable at 0.42x in FY20.

### **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 50 to 55% 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 a open position of INR 9.68 Crore as on September 30, 2020.



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### ***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 75 days and average inventory of 95 days in FY20. 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 48 days to pay its suppliers and thus the cash conversion cycle for the company was 122 days in FY20.

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

Standalone Approach

Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity: Strong**

Strong liquidity is characterized by comfortable gross cash accruals of INR. 27.31Cr against repayment obligation of INR2.57Crore in FY20. Liquidity is further supported by current ratio of 2.60x in FY20 and average working capital utilization of 57.10% for the last twelve months ended Aug-20.

### **About the Company**

Sarna Chemicals Pvt. Ltd (SCPL) was incorporated in year 1989. The company is established as a private limited company and has two manufacturing sites located at Vapi, Gujarat. The company manufactures dye intermediates, pigment intermediates and chemical intermediates. Mr. Savindersingh Jaswantsingh Sarna is the founder promoter of the company



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**Financials: (Standalone)**

**(INR Crore)**

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	133.57	153.61
EBITDA	19.18	33.85
PAT	11.39	23.45
Total Debt	16.39	10.64
Tangible Net-worth	56.94	80.39
EBITDA Margin (%)	14.36	22.04
PAT Margin (%)	8.42	14.96
Overall Gearing Ratio (x)	0.29	0.13

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: N.A**

**Any other information: N.A**

**Rating History for last three years:**

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (October 04, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Facility – Term Loan	Long Term	INR0.30 Cr outstanding (Reduced from INR4.06 crore)	IVR BBB+/Positive Outlook	IVR BBB+/Stable	--	--
2	Fund Based Facility -Cash Credit	Long Term	3.50	IVR BBB+/Positive Outlook	IVR BBB+/Stable	--	--
3	Fund Based Facility – EPC/PCFC	Short Term	9.50	IVR A2	IVR A2	--	--
4	Non Fund Based Letter of Credit / Bank Guarantee	Short Term	5.00	IVR A2	IVR A2		



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**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

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Fund Based Facility – Term Loan	INR0.30 Cr outstanding (Reduced from INR4.06 Cr)	NA	NA	--	IVR BBB+/Positive
Long Term Fund Based Facility - Cash Credit	3.50	NA	NA	--	IVR BBB+/Positive
Short term Fund Based Facility Short Term – EPC/PCFC	9.50	NA	NA	--	IVR A2
Short Term Non Fund Based Facility Letter of Credit / Bank Guarantee	5.00	NA	NA	--	IVR A2