

Rating Advisory

September 24, 2019 | Mumbai

Sicagen India Limited

Advisory as on September 24, 2019

This rating advisory is provided in relation to the rating of Sicagen India Limited

The key rating sensitivity factors for the rating include:

- Operating profitability
- Working capital management
- Fund support to group companies
- Capital expenditure (Capex) and their funding mix

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Sicagen India Limited (SIL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If SIL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Group

SIL was incorporated in June 2004 and demerged from Sical Logistics Ltd with effect from October 2006. The Chennai-based company trades in building material and governing instruments, and also manufactures drums, cables, boats, and specialty chemicals. It is part of the MA Chidambaram group, a large business conglomerate. The company is listed on the Bombay Stock Exchange and National Stock Exchange.

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Rating Rationale

July 31, 2018 | Mumbai

Sicagen India Limited

Ratings downgraded to 'CRISIL BB/Stable/CRISIL A4+'

Rating Action

Total Bank Loan Facilities Rated	Rs.90 Crore
Long Term Rating	CRISIL BB/Stable (Downgraded from 'CRISIL BBB-/Stable')
Short Term Rating	CRISIL A4+ (Downgraded from 'CRISIL A3')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its ratings of bank facilities of Sicagen India Limited (SIL; part of the Sicagen group) to '**CRISIL BB/Stable/CRISIL A4+**' from 'CRISIL BBB-/Stable/CRISIL A3'.

The downgrade reflects CRISIL's belief that the group's operating performance would remain weak over the medium term owing to weak operating profitability across various segments. SIL's revenue growth remained modest at 3.8% in fiscal 2018, largely constrained by weak demand from the construction sector. The group reported operating margins of 0.2% in fiscal 2018 as compared to 0.5% in fiscal 2017. Profitability decline was on account of increased competition, while demand for its building materials segment (the segment contributed almost 65% of overall revenue in fiscal 2018) remained subdued. Furthermore, higher operating cost was incurred for the wholly-owned subsidiary, Wilson Cables Pvt Ltd (WCPL), though sales were flat. Till fiscal 2018, cash accrual was partly supported by steady dividend income from preferential shareholdings across related entities. However, by end of fiscal 2018, SIL redeemed its preferential share investment in one of the related entities, due to which non-operating income could be lower in the medium term.

Financial risk profile has also weakened, due to low operating margin, with interest coverage ratio declining in fiscal 2018. As a result, the operating profitability was inadequate to meet the interest obligations and the operations were supported by non-operating income. Nevertheless, SIL's capital structure remained strong, with total outside liability to tangible net worth (TOLTNW) at about 0.49 times as on 31 March, 2018. Liquidity was aided by high cash and cash equivalents and cushion in bank limit that could be utilised to cover any unforeseen requirement.

Analytical Approach

For arriving at its ratings, CRISIL has combined the business and financial risk profiles of SIL and its wholly-owned subsidiaries, WCPL, Danish Steel Cluster Pvt Ltd (DSCPL) and South India House Estates and Properties Ltd. This is because all these entities, collectively referred to as the Sicagen group, have high management, operational and financial integration.

Key Rating Drivers & Detailed Description

Strengths

* **Diversified business risk profile:** The group derives nearly 65% income from the building materials segment, and the balance from governing services, and manufacturing of cables, precision steels, specialty chemicals, patrol boats and drums. Diversity in revenue profile partly offsets exposure to cyclical in any industry.

* **Healthy capital structure:** Capital structure is likely to remain healthy with TOLTNW ratio of 0.49 time as on March 31, 2018, primarily driven by the healthy network of Rs 391.9 crore. Despite dependence on the bank debt to cover the incremental working capital requirement and fund growth plans, capital structure will continue to be aided by the strong network.

Weakness:

* **Weak operating performance:** Due to low operating profit, the group has been relying on non-operating income and liquid investments to service its debt. However, higher fixed cost and sluggish demand across business segments, may continue to constrain business performance over the medium term.

* **Susceptibility to volatile raw material prices:** Operating margin is likely to be susceptible to volatility in steel prices, as significant proportion of revenue in the building material segment comes from steel products.

* **Large working capital requirement:** Moderate inventory of 50-60 days, and credit of 60-90 days offered to customers, reflect a stretch in the working capital cycle. This is partly eased by credit of 30-45 days received from the suppliers.

Outlook: Stable

CRISIL believes SIL will continue to benefit from the diversified business risk profile and healthy capital structure. The outlook maybe revised to 'Positive' if larger-than-expected operating income and accrual, strengthen debt coverage metrics. The outlook maybe revised to 'Negative' if low profitability, diversion of capital to other related entities, or substantial debt contracted to fund capex, weakens the financial risk profile.

About the Group

SIL was incorporated in June 2004 and demerged from Sical Logistics Ltd with effect from October 2006. The Chennai-based company trades in building material and governing instruments, and also manufactures drums, cables, boats, and specialty chemicals. It is part of the MA Chidambaram group, a large business conglomerate. The company is listed on the Bombay Stock Exchange and National Stock Exchange.

WCPL is a Singapore-based manufacturer of cables used in construction and industrial applications.

DSCPL is a Bengaluru-based manufacturer of specialty steel parts and assemblies.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	737.9	710.8
Profit After Tax	Rs crore	1.15	7.25
Profit After Tax Margin	%	0.2	1.0
Adjusted debt/Adjusted network	Times	0.25	0.19
Interest coverage	Times	0.14	0.52

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Crore)	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	8.0	CRISIL A4+
NA	Cash Credit	NA	NA	NA	37.0	CRISIL BB/Stable
NA	Channel Financing	NA	NA	NA	32.0	CRISIL A4+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	13.0	CRISIL BB/Stable

Annexure - Rating History for last 3 Years

		Current		2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	82.00	CRISIL BB/Stable/CRISIL A4+			14-07-17	CRISIL BBB-/Stable/CRISIL A3	29-11-16	CRISIL BBB/Negative/CRISIL A3+	20-04-15	CRISIL BBB/Stable/CRISIL A3+	CRISIL BBB+/Negative/CRISIL A2
								23-06-16	CRISIL BBB/Negative/CRISIL A3+			
Non Fund-based Bank Facilities	LT/ST	8.00	CRISIL A4+			14-07-17	CRISIL A3	29-11-16	CRISIL A3+	20-04-15	CRISIL A3+	CRISIL A2
								23-06-16	CRISIL A3+			

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	8	CRISIL A4+	Bank Guarantee	8	CRISIL A3
Cash Credit	37	CRISIL BB/Stable	Cash Credit	37	CRISIL BBB-/Stable
Channel Financing	32	CRISIL A4+	Channel Financing	32	CRISIL A3
Proposed Long Term Bank Loan Facility	13	CRISIL BB/Stable	Proposed Long Term Bank Loan Facility	13	CRISIL BBB-/Stable
Total	90	--	Total	90	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Retailing Industry](#)

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