

November 30, 2022

Shree Sulphurics Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based – Cash credit	7.50	7.50	[ICRA]A- (Stable); reaffirmed
Short-term - Non-fund based – Working capital facilities	0.20	0.20	[ICRA]A2+; reaffirmed
Long term/Short term – Unallocated limits	0.30	0.30	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Total	8.00	8.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation take into account the extensive operational track record of the promoters of Shree Sulphurics Pvt.Ltd. (SSPL) in the chemical industry. The ratings factor in the company’s integrated manufacturing facility, which provides flexibility to change the product mix to suit the market requirement and its capability to captively use the by-products to manufacture value-additive products, which command higher margins. The ratings take into account SSPL’s healthy financial risk profile, characterised by adequate cash accruals, comfortable capital structure and healthy coverage indicators.

The ratings are, however, constrained by the company’s moderate scale of operations, highly fluctuating profitability and moderate working capital intensity due to the relatively high credit period offered to the customers. Further, ICRA takes note of the fragmented industry structure and competition from domestic and international players, though it is partially mitigated by the inconsistent quality of products delivered and the poor environment, health and safety standards followed by several organised and unorganised players in the industry. Further, the company is exposed to environmental regulatory risk, given the nature of its operations, wherein any unfavourable regulatory policy shall affect its operations.

The Stable outlook on the long-term rating reflects ICRA’s opinion that the company will continue to benefit from its established track record of operations and the extensive experience of the management in the chemical segment, which coupled with the capacity additions being undertaken, should support the growth in revenue and profits in the medium term while maintaining the credit profile.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of management in chemical industry - SSPL, incorporated in October 1979, is involved in the manufacturing of sulphur and chlorine-based derivatives. Mr. Prakash Shah is a promoter and one of the key directors of the company. He is a qualified B.A. (Business Administration) with around 35 years of experience in the chemical industry. He is one of the key management personnel looking after its overall operations. The key management personnel include Mr. SharadKumar Saxena, who has an experience of around four decades in the chemical industry and Mr. Rajesh Lodha with an experience of around 35 years in legal and banking. Mr. Sureshkumar Bannatwala and Mr. Abhishek Shah, who have an experience of around 20 years and 10 years, respectively, in the chemical industry are also among the key management personnel.

Comfortable financial risk profile - The company’s profitability remained healthy during the last few years leading to an adequate cash accrual position of Rs. 18.6 crore in FY2022. Further, limited dependency on external funding led to a comfortable capital structure, represented in a gearing level of 0.03 times as on March 31, 2022. Low interest and financial

charges owing to limited exposure to external debt, coupled with healthy profitability, resulted in healthy coverage indicators, indicated by OPBDITA/interest and financial charges of 47.98 times and total debt/ OPBDITA of 0.24 times in FY2022.

Well-integrated manufacturing facility provides flexibility to change product mix as per market requirement; captive usage of by-products to manufacture value-additive products – The company commenced manufacturing operations with a basic range of products and gradually expanded into new value-added products, over the years, with the increase in expertise and experience. The existing facility at Ankleshwar (Gujarat) is a well-integrated manufacturing facility, which provides flexibility to the management to change its product mix as per the market requirement.

The highly automated and integrated facility facilitates SSPL to use the by-products at each stage of the production and manufacture all the possible allied products from sulphur and chlorine, namely liquid SO₃, liquid SO₂, oleum 23-25%, oleum, 30%, oleum 65%, sulphuric acid 75%, sulphuric acid 80%, sulphuric acid 98%, thionyl chloride, chlorosulphonic acid, sulphuryl chloride, etc. The company is also in the process of manufacturing new products, namely sodium meta bisulfite, sodium sulfite and acid chloride. This ensures maximum usage of raw materials, better quality products, strong profitability and gradual increase in market share.

Credit challenges

Moderate working capital intensity due to relatively higher credit period offered to customers – The company extends a credit period of around 90 days to its customers because of a competitive market and industry policy. However, it needs to make spot payments to procure sulphur with a credit period of around 30-60 days for other raw materials, leading to lower average credits period from suppliers. The company maintains an inventory of around 30 days to ensure an uninterrupted manufacturing process. The working capital intensity of operations, as indicated by NWC/OI, remained moderate at ~33% in FY2022 due to the adverse credit terms with customers and suppliers and moderate inventory holding. However, SSPL's operations are primarily carried out through its own funds and internal accruals and dependence on external debt remains limited.

Moderate scale of operations with volatility in profit margin – The scale of operations remains moderate with an OI of Rs. 146.76 crore in FY2022, which grew ~63.6% from revenues of Rs. 89.71 crore in FY2021. This was primarily due to a substantial increase in the sales realisation and volume of its key products as the textile industry, which is one of the major end-users for SSPL's products, ramped up post pandemic. Although its profitability remained healthy with OPM of 14.8% in FY2022, the margins have been volatile in the last few years due to the fluctuation in raw material prices.

Stiff competition due to fragmented industry structure – The chemical industry in India is highly fragmented with the presence of several small and large players in the organised and unorganised sectors. Further, the industry faces competition from established players in the international market. However, the company mitigates the competitive risk to an extent due to better quality products and its established strong relations with customers over the years. The risk is also partially mitigated by the inconsistent quality of products and poor environmental, health and safety standards followed by several small and large companies in the industry.

Vulnerability to high regulatory risk due to nature of operations – The chemical industry attracts considerable attention on issues related to air/water pollution. The implementation of stringent pollution control norms led to the operational closure of many small players, which could not meet the control standards. Accordingly, SSPL's operations remain vulnerable to any unfavourable regulatory (environmental) policy changes.

Liquidity position: Strong

The company does not have any term loans, except an outstanding vehicle loan of Rs. 0.77 crore as on March 31, 2022. The liquidity profile remains strong, aided by healthy cash accruals, free cash and liquid investment of Rs. 29.01 crore as on March 31, 2022 with the average fund-based utilisation at ~40% with unutilised working capital limits of Rs. 3.02 crore, while the company has only moderate capex plans after the completion of the capacity expansion currently being implemented.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to improve its scale of operations and diversify the product profile on a sustained basis while maintaining healthy margins and credit metrics and/or improve the working capital cycle.

Negative factors – The ratings could be downgraded if there is a sustained decline in the scale of operations, or profitability, or higher-than-anticipated debt-funded capex or stretch in the working capital cycle that will weaken the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the chemicals industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Shree Sulphurics Private limited, originally incorporated in October 1979, is involved in the manufacturing of sulphur and chlorine-based derivatives. The key products manufactured by the company include various types of sulphuric acids, thionyl chloride, chlorosulphuric acid, sulphuryl chloride and a few more. The company has a factory at Ankleshwar, Gujarat, and corporate office in Ahmedabad and Valsad in Gujarat. It is a part of the Shree Group, which is based primarily in Valsad, Gujarat, with factories at Vapi, Ankleshwar and Valsad. At present, the Group is involved in varied business activities in areas such as construction, ready-made garments, herbal extracts, herbal cosmetic manufacturing and a few other segments.

As per FY2022, the company reported a net profit of Rs. 15.5 crore on an operating income (OI) of Rs. 146.8 crore compared with a net profit of Rs. 12.7 crore on an OI of Rs. 89.7 crore in FY2021.

Key financial indicators (audited)

SSPL Standalone	FY2021	FY2022
Operating income	89.7	146.8
PAT	12.7	15.5
OPBDIT/OI	22.2%	14.8%
PAT/OI	14.2%	10.5%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.3	0.2
Interest coverage (times)	52.7	48.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Nov 30, 2022	Aug 20, 2021	Jun 04, 2020	Nov 01, 2019	
1	Cash credit	Long Term	7.50	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Bank guarantee	Short Term	0.10	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Letter of credit	Short Term	0.10	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long-Term/ Short-Term	0.30	-	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+	[ICRA]A-(Stable) / [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short -term Non-fund Based- Bank Guarantee	Simple
Short -term Non-fund Based- Letter of Credit	Simple
Long-term/ Short -term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	7.50	[ICRA]A-(Stable)
NA	Bank Guarantee	NA	NA	NA	0.10	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	0.10	[ICRA]A2+
NA	Unallocated	NA	NA	NA	0.30	[ICRA]A-(Stable)/ [ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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