Vinati Organics Limited
October 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	5.00	CARE AA; Positive (Double A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	110.00 (Enhanced from 75.00)	CARE AA; Positive / CARE A1+ (Double A; Outlook: Positive/ A One Plus)	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	10.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**125.00 (₹ One hundred twenty-five crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Vinati Organics Limited (VOL) factor in its market leadership in its two key products, viz, in 2- Acrylamido 2 Methylpropane Sulfonic Acid (ATBS) and Isobutyl Benzene (IBB) in the global market. CARE Ratings Limited (CARE Ratings) believes that the competitive advantage of VOL in both its product segments is expected to sustain in the medium term as the manufacturing processes are not easy to replicate and the same acts as entry barrier for new entrants.

The ratings also factor in the improvement in sales reported by VOL in FY22 (refers to the period April 1 to March 31) on the back of strong demand for ATBS (contributing to around 50% of the total sales for VOL). Revenue from ATBS grew by 123% in FY22 on a YoY basis, while revenue from IBB declined by 34% over the same period. Furthermore, during the year FY21, VOL commenced commercial production of a new product, viz., butyl phenol, which contributed to around 12% to the total revenue of the company in FY22. VOL is currently undertaking capex of around ₹580 crore (around ₹300 crore in VOL for ATBS capacity expansion and around ₹280 crore in Veeral Organics Private Limited (VOPL; 100% subsidiary of VOL) which will enable it to manufacture additional derivatives of Isobutylene (IB)). As such, future revenue growth will be supported by increasing demand for ATBS and butyl phenols and incremental revenue from new IB derivatives.

The operating margins for VOL have declined to around 30% in FY22 (PY: 38%) owing to rising raw-material prices, higher freight cost due to shortage of containers and higher power and fuel costs due to significant jump in coal and gas prices. While rising input costs are passed on to the customers with a lag, the overall operating margins are expected to be lower than historical levels, albeit at healthy levels owing to changing product mix.

The ratings continue to derive strength from the long-track record and experience of the promoters in the speciality organic chemical industry. VOL continues to benefit from the long-term relationship with established and reputed clientele across various geographies. Backward integrated manufacturing process with zero discharge along with VOL's cost-efficient operations acts as an entry barrier for new entrants. Furthermore, the rating derives strength from healthy cash flows from operations, favourable capital structure along with strong liquidity and debt coverage indicators.

The ratings continue to be tempered by the concentration of its total operating income from limited key products and susceptibility of VOL's operating margin to raw material price/foreign exchange fluctuations.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Growth in the total operating income on the back of increased demand from the existing products as well as effective diversification in product profile.
- Return on capital employed above 25% on a sustained basis.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any significant debt-funded organic or inorganic expansion undertaken by the company which adversely impacts the debt protection metrics going forward.
- Weakening of its PBILDT margins below 25% and RoCE below 22% on sustained basis.

Outlook: Positive

The positive outlook primarily reflects CARE's belief that VOL's business and financial risk profile will continue to remain strong and will further improve over the medium term. The revision in outlook also reflects expectations of VOL's healthy revenue growth on back of increase in demand from existing products as well as effective diversification in product profile while sustaining PBILDT margins in range of 25-27% and with debt free profile and strong liquidity. The Outlook may be revised to 'Stable' on significant decline in PBILDT margins, and deterioration in capital structure due to increased debt levels or lower cash accruals.

Detailed description of the key rating drivers

Key rating strengths

Vast experience of the promoters in the specialty chemical business: VOL is promoted by Vinod Saraf, first-generation entrepreneur who has over two decades of experience in the chemical industry. The day-to-day operations of the company are managed by a team of qualified and experienced personnel headed by Vinod Saraf. Besides, his daughter, Vinati Saraf has also been actively involved in managing the business.

Prior to incorporation of VOL, Saraf was associated with companies such as the Bhilwara group, Modern Syntex (I) Ltd., Grasim Industries Ltd. and Mangalore Refinery and Petrochemicals Ltd. Under his leadership, VOL has grown both in terms of capacities and in terms of basket of products manufactured by it and has become world's largest manufacturers and sellers of Isobutyl Benzene (IBB) and ATBS with a significant market share in both the product categories.

Backward integrated manufacturing of ATBS and Butyl Phenols; highly cost efficient and zero discharge manufacturing facilities: VOL is the only backward integrated manufacturer of ATBS and butyl phenols with its own Isobutylene (IB) manufacturing unit which makes its operations more cost efficient. Well-integrated product portfolio has helped VOL to achieve high operational efficiencies and produce high-quality products

Long-established relationship with reputed clients with diversified presence in domestic and export markets: VOL has been able to maintain long-term relationship with its clients over the years with its client list including reputed companies such as Chemtall Inc., BASF Corporation, Mitsubishi Corporation, SNF, Dow Europe GMBH among others. VOL enters into long-term supply contracts with its customers, for its two primary products IBB and ATBS. It is an export-oriented company with around 70% of its revenues from exports. It supplies to around 40 countries across the world with majority exports to USA, Europe, Japan and China.

Improving total operating income on the back of strong contribution from ATBS and stable demand from other segments: VOL witnessed TOI growth of around 72% in FY22 on a y-o-y basis and 57% growth when compared with pre-COVID-19 which was primarily driven by growth in ATBS sales due to revival in demand from USA and Europe for ATBS. ATBS is witnessing healthy demand from various end-user industries including oil and gas, water treatment, cosmetic and detergent industries. The company expects the demand to be robust in the coming years, owing to which, it has announced the expansion of its capacity from 40,000TPA to 60,000TPA. IBB sales were impacted in FY22 owing to overstocking by the customers in FY21. Sales growth in FY22 is also supported by revenue from BP. In FY23, IBB sales are expected to improve as its demand is returning to normalcy. Strong demand from ATBS and butyl phenols is likely to drive revenue growth going forward.

Robust financial risk profile: In order to increase its scale of operations and diversify its revenue base the company has been consistently adding capacities of its existing product lines as well as introducing new products. Healthy cash flows from operations have helped VOL fund its capex entirely from internal accruals thus, resulting in a healthy capital structure. During FY22, VOL reported cash flow from operations of ₹126.77 crore and it had cash and cash equivalents (including investments) of around ₹1.07 crore as on March 31, 2022. Moreover, VOL's fund-based utilisation also remains low thus, providing additional liquidity.

Diversification into antioxidants through proposed amalgamation of Veeral Additives Private Limited (VAPL): VAPL is engaged in the manufacture of Antioxidants (AO) used in plastics, LDPE, LLDPE, and polypropylene. This company was acquired by Vinod Saraf (Chairman of VOL) four years back and is fully owned by the promoters of VOL. As per Board resolution dated February 2, 2021, the board of VOL had approved the scheme of merger of VAPL with VOL. Recently, vide board resolution dated September 8, 2021, the board of VOL amended the scheme of merger wherein the shareholders of VAPL shall get 14 shares of VOL of ₹1 each in exchange for 713 fully paid up shares of ₹10 each held in VAPL. This scheme of merger is yet to be approved by SEBI, the stock exchanges and NCLT. The value of this transaction is close to ₹330 crore which includes the value of share transfer and the loan of around ₹130 crore extended by VOL to VAPL to repay its existing bank debt. The following are the synergies which are anticipated from this amalgamation:

- Manufacturing of three types of anti-oxidants
- Anti-oxidants use Butyl Phenols as a raw material
- VOL manufactures its own Isobutylene which is used in manufacturing butyl phenols
- VOL would become the largest and only doubly integrated manufacturer of these AO's in India
- The amalgamation would allow VOL to acquire technology, knowledge and resources in the niche AO space which has potential for import substitution as well as exports.

AOs has higher global demand than domestic demand. As such, apart from catering to domestic demand VOL will be able to cater to export requirements as well. Approximately 50% of the products will be sold in domestic market and 50% exported. Revenue expectation post-merger is to the tune of ₹300 crore per annum.

During FY22, to facilitate forward integration to the existing product lines of VAPL, to expedite the completion of the project in time and to avoid delays in the execution due to ongoing pandemic, VOL has advanced loans of ₹120.48 crore (PY: ₹131.86 crore) to VAPL. Outstanding balance of loans given to VAPL is ₹252.34 crore as on March 31, 2022 (vs. ₹131.86 crore as on March 31, 2021). VAPL's facility came on stream in March 2022, which will start its supplies from H2FY23.

Key rating weaknesses

Product concentrations risk owing to higher dependence on two of its key products although the same is expected to reduce with ramping up of operations in the butyl phenol segment: Despite having a well-integrated product portfolio, VOL continues to derive majority of its revenues from its key products i.e. IBB and ATBS. During FY22, VOL derived around 63% (PY: 63%) of its total revenues from these two products put together. Nonetheless, diverse application of ATBS reduces the product concentration risk up-to a certain extent. Moreover, the company has added four varieties of Butyl Phenol (BP) to its product portfolio and successful ramping of product will reduce its reliance on the two major products up-to some extent. Butyl Phenol contributed around 12% to total revenues in FY22 and is expected to further increase as BP sales gain momentum which is expected to contribute to around 15-20% of the total revenue going forward. During Q1FY23, BP contributed around 19% to total revenues.

Decline in operating margins in FY22: VOL has been consistently reporting high operating margins in the past ranging between 35% and 42% on the back of its strong position in both its key product segments, i.e., IBB and ATBS. However, steep increase in the price of its key raw materials, increased freight costs and change in sales mix in FY22 led to a decline in operating margins. While raw material prices and freight costs have softened compared to its peak levels. Going forward, with increasing share of butyl phenols in the sales mix, operating margins are expected to be lower than historical levels but will remain at healthy levels.

Exposure to raw material volatility and foreign currency fluctuations mitigated to an extent by cost plus mark-up formulae of pricing followed by VOL: Crude derivatives such as toluene, propylene, acrylonitrile and methyl tert butyl ether are the key raw materials required in the manufacturing process of IBB and ATBS. The company procures toluene from Reliance Industries Limited (RIL) and local traders whereas propylene is sourced from local refineries like Bharat Petroleum Corporation Limited (BPCL). The pricing terms are based on the base prices of toluene and propylene, which are published by Platts (leading global provider of energy and metals information). VOL follows a cost-plus mark-up formula for pricing of its products and as such is able to pass on raw material price increase to its customers. Being a net exporter, VOL is exposed to foreign exchange fluctuation risk. The company has natural hedge up-to the extent of imports. However, as the company does not hedge fully its foreign currency exposure, it remains exposed to any adverse movement in the foreign exchange. As on March 31, 2022, the company had net USD exposure of ₹234.05 crore (PY: ₹157.59 crore) and net Euro exposure of ₹11.92 crore (P.Y: ₹6.32 crore).

Liquidity: Strong

Liquidity of VOL is marked by healthy cash accruals from operations against no long-term debt repayment. VOL has unencumbered cash and investments balance of ₹1.07 crore as on March 31, 2022. Furthermore, VOL has been regularly reporting healthy cash flow from operations and the same stood at ₹126.77 crore during FY22. With a negligible overall gearing, VOL has sufficient headroom to raise additional debt for its capex. Working capital limits are mostly used to meet non-fund-based requirements with very little fund-based utilization.

Analytical approach

CARE Ratings has considered consolidated financials for arriving at the rating owing to operations in similar line of business and business linkages that exists with its subsidiaries. VOL incorporated a wholly owned subsidiary named Veeral Organics Private Limited on October 05, 2020.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

Incorporated in 1989, VOL is one of India's leading manufacturers and exporters of specialty organic intermediaries, monomers, and polymers. VOL is the world's largest manufacturer of isobutyl benzene (IBB) and 2-Acrylamido 2- Methylpropane Sulfonic Acid (ATBS). In an effort towards backward integration, VOL manufactures Isobutylene (IB), one of the key components used in manufacturing ATBS. Besides, VOL also manufactures butyl phenols, Normal Butylbenzene (NBB), Hexenes, N-Tertiary Butyl Acrylamide (TBA), high purity methyl tertiary butyl amine (HP-MTBE) and other industrial monomers on a small scale. Moreover, the company also manufacturers Tertiary Butyl Amine (TB-Amine), Tertiary Butyl Benzoic Acid (PTBBA) and a couple of customized products. Also, VOL plans to expand its product portfolio through Veeral Organics Ltd (fully owned subsidiary) by introducing products like MEHQ and Guaiacol (2000 MT) and Iso Amylene (30000 MT)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	971.31	1,674.61	525.01
PBILDT	370.31	494.46	149.57
PAT	269.32	346.51	101.19
Overall gearing (times)	0.00	0.01	NA
Interest coverage (times)	390.54	299.27	318.23

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:

Name of Director	Designation of Director
Adesh Kumar Gupta	Non-Executive - Independent Director

Adesh Kumar Gupta who is a Non-Executive / Independent Director on the Board of Vinati Organics Ltd. is a Non-Executive / Independent Director of CARE Ratings. Independent/Non-executive Directors of CARE Ratings. are not a part of CARE Ratings's Rating Committee and do not participate in the rating process.

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	10.00	CARE A1+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	110.00	CARE AA; Positive / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	5.00	CARE AA; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (01-Oct-21)	1)CARE A1+ (31-Aug-20)	1)CARE A1+ (09-Aug-19)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	110.00	CARE AA; Positive / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (01-Oct-21)	1)CARE AA; Stable / CARE A1+ (31-Aug-20)	1)CARE AA; Stable / CARE A1+ (09-Aug-19)
3	Fund-based/Non-fund-based-LT/ST	-	-	-	-	-	-	1)CARE AA; Stable / CARE A1+ (09-Aug-19)
4	Fund-based - LT-Cash Credit	LT	5.00	CARE AA; Positive	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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