

## Visaka Industries Limited

January 07, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	235.16 (Reduced from 249.64)	CARE AA-; Stable (Double A Minus; Outlook: Stable )	Reaffirmed
Short Term Bank Facilities-1	198.00 (Reduced from 210.00)	CARE A1+ (A One Plus )	Reaffirmed
Short Term Bank Facilities-2	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>433.16</b> <b>(Rs. Four Hundred Thirty-Three Crore and Sixteen Lakhs Only)</b>		
Fixed Deposit	25.00	CARE AA- (FD); Stable [Double A Minus (Fixed Deposit); Outlook: Stable ]	Reaffirmed
<b>Total Medium Term Instruments</b>	<b>25.00</b> <b>(Rs. Twenty-Five Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and fixed deposit programme of Visaka Industries Limited (VIL) continue to derive strength from the experienced promoters and management team, long and established track record of operations of the company with a strong brand image, established market position of the company as one of the largest player in the asbestos fibre cement sheet industry in India with widespread distribution network, well-established accounting and regulatory compliance mechanism in place, strategical capacity expansion undertaken, moderately diversified revenue stream profile, comfortable capital structure and robust financial & liquidity position. The ratings also factor in the satisfactory financial performance during H1FY21 (FY refers to period April 01 to March 31) with significant revenue growth in the asbestos fiber cement segment and improvement in margins, after reporting moderation in performance in FY20.

The rating strengths are tempered by the risk associated with volatility in raw material prices and foreign exchange fluctuations, high inventory holding days and regulatory & environmental issues surrounding asbestos mining; even though the company's operations are within approved levels. The ratings also take note of the impact of covid 19 pandemic on the textile segment with relatively slower recovery in line with the overall industry scenario.

### Rating Sensitivities

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

- Continuous diversification of revenue stream and growth in scale of operation
- Improvement in profit level and margin with PBILDT margin sustaining at above 15%

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

- Increased debt level resulting in weakening of overall gearing ratio to 1.20x or above
- Any adverse impact on the business and consequently liquidity profile due to changes in regulation w.r.t usage of asbestos fibre.

CARE has noted that Visaka Industries Limited Limited (VIL) has repaid the aforementioned short term bank facilities-2 in full and there is no outstanding under the said loan as on date. Taking cognizance of this, we hereby withdraw our rating for VIL's aforementioned short term bank facilities with immediate effect.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Key Rating Strengths

**Experienced promoters and established track record:** The promoters of VIL have been involved in the building products business for more than three decades. The company commenced operations in 1981 and over the years, it has developed an established brand name in the Asbestos Cement Sheet (ACS) segment in India and is the second largest player with a market share of 18%. The company has been promoted by Dr. G Vivekanand (Vice Chairman), and the business operations of VIL have benefited from his long established track record in diversified businesses and the vast industry network developed over the years. He is well supported by a team of qualified and experienced management team.

**Diversified revenue stream with growing contribution from non ACS segment:** VIL has a diversified product portfolio with the company having presence in building products through Asbestos Cement Sheets (ACS) and Non-asbestos boards & panels (V-

Next products). Additionally, VIL has presence in textiles business with the company manufacturing synthetic yarns which includes melange yarns, high twist yarn and specialty yarns with different blend styles.

The contribution of the ACS segment is about 60% of total revenue in FY20, which has come down from 65% of the total revenue in FY19. The company has been endeavoring to increase the share of other segments (40% in FY20 vis-à-vis 35% in FY19), over the last few years, in order to lower its dependence on the ACS business. The share of ACS segment has increased to 78% in H1FY21 due to the slowdown in Non-Asbestos segment due to Covid-19 and the share of Non-Asbestos segment is expected come back to Pre-Covid levels from the next fiscal with the situation coming back to normalcy. However, given the growing rural & urban demand for ACS and its cost competitiveness, the revenue contribution from ACS is expected to remain high.

**Widespread marketing distribution network:** VIL has a wide distribution network of about 7000 dealers with 13 marketing offices and depots in about 36 cities in India. The company markets its products pan India, except north, and markets directly to dealers/retailers rather than routing through distributors to gain better understanding of the market place. The dealer contribution to sales is about 85% with balance 15% comprising institutional sales.

**Strategic expansion over the years and completion of planned capex:** VIL has been strategically expanding its capacity of various segments with expansion undertaken over the last three years one at a time and funded through internal accruals. The company had undertaken setting up of fibre boards and panels capacity at Jhajjar, Harayana which has been completed and entire production coming on stream from August 2020. On completion of the said capex, the company has undertaken expanding the capacity of V-Boards by additional 50,000 MT by setting up a new unit at Coimbatore, Tamil Nadu, at an aggregate cost of about Rs.85.0 crore being funded through internal accruals. The company has completed the land acquisition and the unit is expected to commence operations from FY22.

#### **Satisfactory operational and financial performance during FY20**

The capacity utilization of all the products have been at a satisfactory level over the past years. However, the capacity utilization of the ACS segment declined to 79% in FY20 (from 95% in FY19) due to slowdown in rural market and lockdown during March 2020 due to Covid-19 pandemic. However, given the significant business growth witnessed during FY18-19, the base effect resulted in moderation in financial performance during FY20 (on a y-o-y basis) with revenue declining by about 7.7%. Nevertheless, the overall performance continued to remain at a satisfactory level.

#### **Improvement in profitability during H1FY21**

The company reported satisfactory financial performance during H1FY21 with increased contribution from the ACS segment setting off the slowdown in the non ACS segments thereby shielding the revenue from adverse impact of covid 19 pandemic. The ACS segment reported revenue of Rs.396 crore during H1FY21 (annualized growth of 26%). led by pent-up demand, lower availability of colour coated steel sheets (substitute of ACS) due to lower steel coil imports from China and higher import duties on steel, good monsoon and hence high disposable income with rural segment and significant increase in steel prices making ACS a cheaper alternative. Consequently, the PBILD margin jumped to about 19.96% in H1FY21 (vis-à-vis 12.05% in H1FY20). Sustainability of the margins would be key growth driver.

**Robust financial position:** VIL has a comfortable capital structure with both debt-equity and overall gearing ratio below unity as on March 31, 2020 and September 30, 2020. The strong financial position is backed by adequate cash generation over the years and low debt repayment obligations. The promoters have infused an equity to the tune of Rs.4.82 crore and Rs.7.2 crore via warrants in August 2020 to meet any contingencies in-view of Covid-19 pandemic. The debt coverage indicators viz. interest coverage interest coverage (6.54x in FY19 against 7.42x in FY19) and Total Debt/GCA (3.60 in FY19 against 2.73x in FY19) also remained comfortable during FY20

**Stable industry outlook:** ACS industry in India is an organized segment comprising few players, owing to strict regulatory norms which act as a deterrent to new entrants. Approximately 70% of India's population lives in houses with thatched roof/tiles which require continuous maintenance and replacement, resulting in increased demand for durable houses. The asbestos sheet industry is expected to benefit in the short term from the favourable GST taxation rate which is now at par with steel sheets at 18% (reduced from the earlier decided 28%). Given the affordability of ACS sheets over others, the same is a preferred source of building roofing product which augurs well for the industry.

#### **Key Rating Weaknesses**

**Risk associated with volatility in raw material prices and foreign exchange fluctuations:** The input prices of key raw materials i.e. Asbestos fibre, Wood Pulp & cement, is volatile in nature which subjects the profitability to moderate risk associated with adverse movement of prices. However, towards minimizing the pricing & supply risk for its major input (asbestos fibre which accounts for 34% of total raw material consumption cost), VIL enters into yearly agreements with major suppliers and fixes the pricing and quantity details. For the fluctuation in other inputs, the company undertakes market scenario based decision to pass on the prices or absorb the same.

The business operation of VIL involves significant imports which expose the company to risk associated with volatility in foreign exchange rates. The same is, however, partially mitigated by the natural hedge on account of exports of board and yarn and an efficient treasury team monitoring the forex payout, movement in forex rates and hedging decision to be taken accordingly.

**High inventory days:** VIL operates in ACS industry marked by high inventory level and the company has to maintain stock of raw materials on account of lead time associated with imports and fluctuation in prices of raw material. Additionally, the

company also operates in the synthetic yarn segment and has to stock high volume of inventory for smooth operations of the plant, resulting in relatively high inventory holding period for VIL (126 days in FY20).

**Impact of COVID 19 on the textile segment**

The textile division is impacted due to Covid-19 as 75% of the sales is to Textile Market in Maharashtra which was closed majority of the time till June 2020 and the textile division was operating at a capacity of 35% till September, 2020. The synthetic yarn segment revenue declined by about 65% from Rs.110 crore in H1FY20 to Rs.38 crore in H1FY21. The textile division is expected to report lower income during the current fiscal which nevertheless has been compensated by higher sales in ACS segment.

**Regulatory & environmental issues surrounding asbestos mining:** The mining of asbestos and use of asbestos related products have been under regulatory and environmental scanner over the years. However, while mining of asbestos is banned in India, the use of asbestos is permitted in related products and the company operates within the approved levels. Nevertheless, an adverse policy decision in the segment is likely to have an impact on the company given high revenue contribution from ACS.

**Liquidity Profile – Strong:**

VIL enjoys a strong liquidity profile at the back of adequate gross cash accruals gross cash accruals (Rs.85 crore during FY20) vis-à-vis low repayment obligations. VIL manages its working capital requirement efficiently with utilization of fund based limits being low in the 12 months ended September 30, 2020. The working capital utilization for the 12 months ending September 2020 stood 27.43% with almost nil utilization during the months July 2020- September 2020. The cashflow from operations was robust at close to Rs.202 crore during H1FY21 which alongwith low debt liabilities resulted in free cash and liquid balance of Rs.88.25 crore as on September 30, 2020 (Rs.16.25 crore as on March 31, 2020). The company has not availed moratorium on debt servicing as a part of covid relief provided by RBI.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

**About the Company**

Visaka Industries Ltd (VIL), promoted by Dr. G Vivekanand (Vice Chairman), was incorporated in 1981 in Hyderabad, Telangana and is engaged in the manufacturing of Asbestos Cement Sheets (ACS), Non-asbestos boards & panels and Synthetic fibre yarns. The company is the second largest player in manufacturing of ACS in India with an installed capacity of 802,000 Metric Tonnes Per Annum (MTPA) and is one of the largest cement asbestos products manufacturers in India. Additionally, VIL has manufacturing capacity of 170,000 MTPA for non-asbestos boards, 19,750 MTPA for non-asbestos panels and yarn manufacturing capacity of 2,752 spinning positions at its plant at Nagpur, Maharashtra. The company's building products (ACS and Non-asbestos boards & panels) are exported to around 15 countries while the textile yarns are exported to 17 countries globally.

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Total operating income	1141	1055
PBILDT	148	114
PAT	67	49
Overall gearing (times)	0.58	0.60
Interest coverage (times)	7.42	6.54

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	130.00	CARE AA-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	20.00	CARE A1+
Fund-based - LT-Term Loan	-	-	March 2027	105.16	CARE AA-; Stable
Non-fund-based - ST-Stand by Line of Credit	-	-	-	168.00	CARE A1+
Fund-based - ST-Term loan	-	-	-	0.00	Withdrawn
Fixed Deposit	-	-	-	25.00	CARE AA- (FD); Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	130.00	CARE AA-; Stable	-	1)CARE AA-; Stable (20-Nov-19)	1)CARE AA-; Stable (22-Nov-18)	1)CARE AA-; Stable (04-Dec-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A1+	-	1)CARE A1+ (20-Nov-19)	1)CARE A1+ (22-Nov-18)	1)CARE A1+ (04-Dec-17)
3.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A1+	-	1)CARE A1+ (20-Nov-19)	1)CARE A1+ (22-Nov-18)	1)CARE A1+ (04-Dec-17)
4.	Fund-based - LT-Term Loan	LT	105.16	CARE AA-; Stable	-	1)CARE AA-; Stable (20-Nov-19)	1)CARE AA-; Stable (22-Nov-18)	1)CARE AA-; Stable (04-Dec-17)
5.	Fixed Deposit	LT	25.00	CARE AA- (FD); Stable	-	1)CARE AA- (FD); Stable	1)CARE AA- (FD); Stable (22-Nov-18)	1)CARE AA- (FD); Stable

						(20-Nov-19)		(04-Dec-17)
6.	Non-fund-based - ST- Stand by Line of Credit	ST	168.00	CARE A1+	-	1)CARE A1+ (20-Nov- 19)	1)CARE A1+ (22-Nov-18)	1)CARE AA-; Stable / CARE A1+ (04-Dec- 17)
7.	Fund-based - LT/ ST- Stand by Line of Credit	LT/ST	-	-	-	-	1)Withdrawn (22-Nov-18)	1)CARE AA-; Stable / CARE A1+ (04-Dec- 17)
8.	Fund-based - ST- Term loan	ST	-	-	-	1)CARE A1+ (20-Nov- 19)	1)CARE A1+ (22-Nov-18)	1)CARE A1+ (04-Dec- 17)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - ST-Term loan	Simple
5.	Non-fund-based - ST-Bank Guarantees	Simple
6.	Non-fund-based - ST-Letter of credit	Simple
7.	Non-fund-based - ST-Stand by Line of Credit	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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