

## Vishnu Chemicals Limited

February 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	175.59	CARE BBB; Stable	Assigned
Short Term Bank Facilities	78.45	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the bank facilities of Vishnu Chemicals Ltd derive strength from the established market position of the company in manufacturing of chromium and barium chemicals, sustained improvement in operational performance in FY22 and H1FY23, diverse product portfolio and end user application coupled with wide geographic reach, repeated orders backed by long standing association with reputed clientele, average financial risk profile.

The ratings however are constrained by susceptibility of profit margins to volatility in raw material prices and exposed to foreign exchange fluctuation risk, moderate working capital intensity & utilization, exposed to competition from imports, exposed to ESG risk since it operates in chemical industry.

### Rating sensitivities: Factors likely to lead to rating actions:

#### Positive Factors

- Healthy volume-driven growth in scale of operations with total operating income (TOI) of more than Rs.1400 crore on sustained basis.
- Improvement in PBILDT margin to more than 16% on sustained basis while maintaining RoCE above 20% and overall gearing below 1.00x
- Improvement in operating cycle to below 70 days on sustained basis resulting in reduced reliance on working capital borrowings.

#### Negative Factors

- Significant decline in scale of operations with TOI below Rs.700 crore along with any change in customer profile adversely impacting sales volume of Vishnu Chemicals Limited (VCL)
- Decline in PBILDT margin below 10% on sustained basis.
- Elongation in operating cycle to more than 120 days on sustained basis resulting in increased reliance on working capital bank borrowings.
- Deterioration in overall gearing beyond 1.50x on account of increase in working capital intensity or any major debt funded capex.
- Any change in prevailing pollution control/ environmental norms and/or regulatory ban on production & sales of certain chemicals thereby significantly impacting its business and profitability.

### Analytical approach: Consolidated

CARE has considered financials of Vishnu Chemicals Ltd. (VCL) (Holding company), Vishnu Barium Pvt. Ltd. (wholly owned subsidiary of VCL) and Vishnu South Africa Pty Ltd. (wholly owned subsidiary of VCL – Yet to start operations) in its analysis as the companies are in the similar line of business and have operational/financial linkages. These entities are commonly referred to as VCL in the analysis.

### Outlook: Stable

### Key Strengths:

#### Established position with experienced promoters and management team.

Mr. Ch. Krishna Murthy, one of the key architects in envisioning the growth and expansion of Vishnu Chemicals Limited (VCL) have an experience of over 3 decades in the business of manufacturing, marketing and exporting of chromium chemicals worldwide. Apart from Mr. Krishna Murthy, Ms. Ch. Manjula (Wife of Mr. Krishna Murthy) and Mr. Ch. Siddhartha (Son of Mr. Krishna Murthy) are also the co-promoters of the company. Mr. Ch. Siddhartha Cherukuri is a Joint Managing Director of Vishnu Chemicals Limited and Managing Director of Vishnu Barium Private Limited.

#### Significant growth in revenue with improvement in operational performance during FY22

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

VCL's Total operating income (TOI) on a consolidated basis grew by 58% on a YoY basis to Rs.1072.48 crore. The improvement was attributed to improved sales realizations which increased by 59% in FY22 on a YoY basis. However, the overall volume remained stable. The PBILDT margin of VCL improved to 15.02% in FY22 vis-à-vis 11.66% in FY21. The margins are expected to improve going forward on account of company's backward integration plan to manufacture raw material soda ash (within chromium segment). During H1FY23 the company has maintained the performance with sales of Rs. 736 crore and PAT of Rs. 69 crores.

#### **Diverse product portfolio and end user application coupled with wide geographic reach**

VCL manufactures a diverse product portfolio serving more than 15 industries across more than 50 countries globally.

#### **Repeated orders backed by long standing association with reputed clientele**

VCL has benefited from its experienced promoters who have been associated with the chemical industry for over three decades and have been able to establish long standing relationships with its clientele.

#### **Average financial risk profile**

The overall gearing ratio of the company on a consolidated basis has slightly improved from 1.11x as on March 31, 2021 to 1.00x as on March 31, 2022 despite increase in the term debt. The improvement was attributed to increase in networth owing to accumulation of profits. PBILDT interest coverage ratio of the company on a consolidated basis improved from 2.90x in FY21 to 5.75x in FY22. The capital structure & debt coverage indicators are expected to remain comfortable throughout the projected period.

#### **Key Weaknesses:**

##### **Susceptibility of profit margins to volatility in raw material prices**

The Company is subject to commodity price risks due to fluctuation in prices of raw material and packing material. Also, Company's payables and receivables are partly in foreign currencies and due to fluctuations in foreign exchange rates, it is subject to Currency risks. However, the Company being a net forex earner the risk of commodity and currency is mitigated via natural hedge.

##### **Moderate working capital intensity & working capital utilization.**

The liquidity position of the company improved backed by increased accruals. The operating cycle of the company improved to 72 days in FY22 vis-à-vis 111 days in FY21 on consolidated basis. The company operates in working capital intensive industry, the average utilization was around 86% for the 12 months ended November 2022.

##### **Exposed to competition from Imports**

One of the biggest challenges faced by the Indian chemical industry is the ease in the availability of cheaper chemicals via import. However, the Indian chemical industry possesses several advantages considering the problems stemming from the trade conflict amongst the US, China and Europe. Disruption in China's supply chain and its anti-pollution measures poses significant opportunities for India to capitalize on.

##### **Exposed to ESG risk since it operates in chemical industry**

The company has established track record of complying with the required pollution control norms. The Company has residue management policy in place and there is a continuous effort to reuse solid residue.

##### **Liquidity: Adequate**

VCL's liquidity position is adequate with term loan repayment obligation of Rs.28.75 crores in FY23 and Rs. 30.18 crores in FY24 as against the achieved Gross Cash Accruals (GCA) of Rs.110.78 crore in FY22. The cash accruals are expected to remain above Rs. 120 crores during FY23 and FY24, which will be sufficient to meet upcoming repayment obligations. The company has cash and bank balance of around Rs.18.11 crore as on September 30, 2022.

VCL continued to remain working capital intensive mainly on account of high inventory level. The average maximum fund based working capital utilization is around 86% for past twelve months ending on November 30, 2022.

#### **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](#)

[Policy on Withdrawal of Ratings](#)

### About the Company

Incorporated on March 27, 1989. Vishnu Chemicals Limited is in the business of manufacturing, marketing and export of chromium chemicals, Barium compounds and other speciality chemicals worldwide. The company is serving more than 15 industries across more than 50 countries globally. The barium compounds are produced under its subsidiary Vishnu Barium Private Limited.

The company has four manufacturing units, one in Telangana, two in Andhra Pradesh and one unit in Chhattisgarh with a total installed capacity of 231,000 Metric Tonne Per Annum (MTPA)

Vishnu Barium Private Limited (VBPL) [erstwhile Solvay Vishnu Barium Private Limited] was incorporated on May 29, 2001 as a JV between Solvay group (Belgium Chemical Group) and Vishnu Chemicals Limited (VCL). After 5 years of operation, Solvay group took over the entire stake in the company. Subsequently, during FY16, VCL bought the 100% stake from Solvay group and thereafter VBPL continued operations starting July 01, 2015 as a wholly owned subsidiary of VCL.

VBPL is the largest manufacturer of Barium chemical in India. It has its manufacturing plant at Srikalahasti, Andhra Pradesh with an installed capacity of 60,000 MTPA (increased from 40,000 MTPA) of Barium Carbonate and 5,000 MTPA of Sulphur. Barium Carbonate (powder and granules), sulphur and barium sulphide are the key products manufactured by VBPL. Barium carbonate is mainly used in ceramics, tiles, bricks, glazes, speciality glass and cement industries. VCL caters to various export markets in Europe, Asia, Africa, North America, South America etc.

### Consolidated Financials: (VCL)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	9MFY23
Total operating income	679.07	1072.48	NA
PBILDT	79.15	161.06	NA
PAT	34.49	81.39	NA
Overall gearing (times)	1.13	1.01	NA
Interest coverage (times)	2.90	5.75	NA

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

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

**Any other information:** 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

**Lender details:** Annexure-5

**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
Fund-based - LT-Cash Credit		-	-	-	100.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	Nov 27	75.59	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	70.00	CARE A3+
Non-fund-based - ST-Standby Line of Credit		-	-	-	8.45	CARE A3+

**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	Fund-based - LT-Term Loan	LT	-	-	-	-	1)CARE BB+; Stable (29-Oct-20) 2)Withdrawn (29-Oct-20)	1)CARE BB+; Stable (31-Jul-19)
2	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	1)Withdrawn (29-Oct-20) 2)CARE BB+; Stable (29-Oct-20)	1)CARE BB+; Stable (31-Jul-19)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)CARE A4+ (29-Oct-20) 2)Withdrawn (29-Oct-20)	1)CARE A4+ (31-Jul-19)
4	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	1)Withdrawn (29-Oct-20) 2)CARE A4+ (29-Oct-20)	1)CARE A4+ (31-Jul-19)
5	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (20-Nov-20) 2)CARE BB+; Stable; ISSUER NOT COOPERATING* (20-Nov-20) 3)CARE BB+; Stable; ISSUER NOT	-

							COOPERATING* (29-Oct-20)	
6	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	1)Withdrawn (20-Nov-20) 2)CARE BB+; Stable; ISSUER NOT COOPERATING* (20-Nov-20) 3)CARE BB+; Stable; ISSUER NOT COOPERATING* (29-Oct-20)	-
7	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (20-Nov-20) 2)CARE A4+; ISSUER NOT COOPERATING* (20-Nov-20) 3)CARE A4+; ISSUER NOT COOPERATING* (29-Oct-20)	-
8	Fund-based - LT-Cash Credit	LT	100.00	CARE BBB; Stable				
9	Non-fund-based - ST-BG/LC	ST	70.00	CARE A3+				
10	Fund-based - LT-Term Loan	LT	75.59	CARE BBB; Stable				
11	Non-fund-based - ST-Standby Line of Credit	ST	8.45	CARE A3+				

\*Long term/Short term.

#### Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities - NA

#### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Standby Line of Credit	Simple

#### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the 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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