Visaka Industries Limited

September 14, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	232.62 (Reduced from 235.16)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	173.00 (Reduced from 198.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**405.62 (Rs. Four hundred five crore and sixty two lakh only)**		
Fixed Deposit	25.00	CARE AA- (FD); Stable [Double A Minus (Fixed Deposit); Outlook: Stable]	Reaffirmed
Total Medium-term Instruments	**25.00 (Rs. Twenty five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and fixed deposit programme of Visaka Industries Limited (VIL) takes into account improvement in the total operating income and profitability during FY21 (refers to the period April 01 to March 31) and during Q1FY22 with significant revenue growth in the asbestos fiber cement segment, satisfactory operational position and healthy capital structure. The ratings 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 players 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 and moderately diversified revenue stream profile. 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 the approved levels.

Rating Sensitivities

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

- Continuous diversification of revenue stream in non-asbestos segment and growth in the scale of operation over Rs.2,500 crore.
- 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 1.00x or above.
- Any adverse impact on the business and consequently liquidity profile due to changes in regulation w.r.t usage of asbestos fibre.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in total operating income and profitability during FY21 and during Q1FY22

During FY21, the income from operations improved by 9.4% from Rs.1,055.25 crore in FY20 to Rs.1,154 crore in FY21 mainly due to high demand in ACS segment during H2FY21. During H1FY21, the operations of the business were moderated due to Covid-19 restrictions, however, the demand picked up again post removal of restriction from H2FY21. Consequently, with increase in volume sales for high-margin asbestos cement sheet coupled with increased realization has resulted in the improvement of PBILDT margin by 665 bps from 10.79% during FY20 to 17.44% during FY21. Furthermore, in line with the PBILDT margin, the PAT margin also improved by 491 bps from 4.67% during FY20 to 9.58% during FY21.

During Q1FY22, the operating income improved by 22% from Rs.286.74 crore in Q1FY21 to Rs.351.17 crore in Q1FY22. Last year during Q1FY21, due to the covid-19 restrictions, the revenue of the company declined. However, during Q1FY22, the sales of the company were back to its normal level. Adding to that, the high contribution from the ACS segment (increased volume and prices) has resulted in further improvement in PBILDT level and margin during the period. The PBILDT margin jumped to about 19% in Q1FY22.

Satisfactory operational performance
The capacity utilisation for ACS segment had declined during FY20 on the account on lower demand from rural segment, nevertheless the same improved to 89% during FY21. The capacity utilisation for the other segments also remained moderate in FY21. Due to the closure of the plant due to Covid-19, the operations of the company remained close till May 04, 2020. In the ACS segment, the volume sales and price realizations have improved significantly by about 11% and 16%, respectively, during FY21 resulting in improvement in revenue from the segment by about 28%. In the non-asbestos boards and panels, the sales volume remained stable, whereas the average price realisation increased by 4% in FY21.
Healthy capital structure
VIL has a favourable capital structure with both debt-equity and overall gearing ratio below unity as on March 31, 2021. The overall gearing remained comfortable, at 0.27x as on March 31, 2021 (as against 0.60x as on March 31, 2020) at the back of healthy accretion of profit to the net worth coupled with scheduled repayment of term loans and lower outstanding balance on cash credit as on March 31, 2021. The company has also made preferential allotment of 200,000 shares at Rs.241 to the promoters and received Rs.4.82 crore. Apart from this, the company also converted 400,000 convertible warrants into shares allotted to the promoters and received Rs.14.46 crore. The debt coverage indicators, viz., interest coverage interest coverage (16.48x in FY21 against 6.54x in FY20) and Total Debt/GCA (1.11x in FY21 against 2.67x in FY20) also remained comfortable during FY21. Also, the average working capital utilization has also remained close to nil during the 12-month period ended June 2021.

Experienced promoters with long track record of operation of the company
The promoters of VIL have been in the Asbestos sheets industry for more than three decades. The company commenced operations in 1981 with an installed capacity of 36,000 MTPA in the ACS segment and has grown to be the second-largest player in the industry in terms of installed capacity. The company has been promoted by Dr G Vivekanand (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. This has enabled the company to expand its size and scale of operation. VIL is managed by a professional board comprising eight directors with all the directors having long-standing industry experience of more than two decades. They are supported by a team of experienced and capable professionals, having considerable experience in the segment, to look after the day-to-day operations.

Diversified revenue stream
VIL has a diversified product portfolio with the company having presence in building products through asbestos cement sheets (ACS), Non-asbestos boards and panels (V-Next products) and 'ATUM', an integrated solar roofing product where solar panels are fused with the company's roofing V-boards. Additionally, VIL has presence in textiles business wherein it manufactures synthetic yarns which includes melange yarns, high-twist yarn and specialty yarns with different blend styles, which is supplied to major textile players, viz., Siyaram, Raymonds, Arvind Mills, Donear, etc.
The ACS segment continues to remain the major segment for the company with revenue contribution of about 70% of the total revenue during FY21 (vis-à-vis about 60% during FY20). The revenue from non-asbestos boards and panels segments however remained stable. Furthermore, the synthetic yarn division reported decline in revenue in FY21 to Rs.136 crore when compared with Rs.216 crore in FY20. The synthetic yarn division was majorly impacted during H1FY21 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 Bhiwandi market has opened somewhere near August 2020. Moreover, during FY21, the company has executed 28 projects for total capacity of 1.83 MW across India under the ATUM segment. Going forward, the company expects the ATUM segment to contribute significantly due to the demand for eco-friendly affordable housing both in India and overseas. Currently, the division is not profitable due to initial setup and marketing costs and the company expects the division to be profitable by the end of FY22.

Widespread marketing distribution network
VIL has a wide distribution network of about 7,000 dealers, and it has depots at about 36 cities in India. The company markets its products pan India. Given the limited organized players in the segment, the key players cater to different regions across the country with limited overlapping. The marketing team directly supplies to dealer/retailers rather than routing through distributors and dealer contribution to sales is about 85% with balance 15% comprising institutional sales to industries, Government and poultry companies. Given the majority of sales is to rural and semi-urban areas, the company routes its sales through retailers/dealers rather than setting up their sales channels in all its segments across India. VIL supplies its products on Pan-India basis with thirteen marketing offices across the country and has a market share of about 18% in ACS segment, making it the second-largest player in the country after HIL Ltd (about 21%).

Growth plans
Over the last few years, VIL has strategically diversified its product portfolio within the other two segments and increased their revenue share in order to lower its dependence on the ACS business. The company is further 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 construction was expected to be completed by FY21; however, got delayed due to Covid-19. The company has incurred cost of Rs.60 crore till August 12, 2021, funded through internal accruals and the unit is expected to commence operations by December 2021. Moreover, the company is also undertaking expansion in the AC unit for additional 100,000 MT at Raebareli plant. The total cost for capacity enhancement is around Rs.70 crore out of the company has already incurred Rs.8 crore till August 12, 2021. The said expansion is expected to be completed by March 2022. Furthermore, the company is also enhancing the capacity for boards and panels segment for cost of about Rs.25-30 crore during FY22 funded through internal accruals of the company.

Stable industry outlook

ACS industry in India is majorly an organized industry comprising few players, owing to strict regulatory norms, as asbestos fibre is hazardous to health. The top five companies account for about 75% of the market share. Asbestos sheets are preferred over other roofing material such as tiles and galvanized iron sheets as they are durable, cost-effective and require no maintenance. Approximately 70% of India's population lives in houses with thatched roof/tiles, which need continuous maintenance and replacement resulting in increased demand for durable houses. Majority of village houses are made of thatched roofs, brick tiles, etc., and hence, there is a continuous effort on the villagers' part to have a durable shed like ACS, which is a cost-effective substitute. However, the demand is also dependent on the monsoon levels; better monsoon will make the rural people to replace the thatched roof with the asbestos sheet. 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% (earlier at 28%). The industry growth in medium to long-term significantly depends on demand for low-cost durable houses in the rural sector and is directly linked to the performance of the rural economy. A number of government schemes such as Pradhan Mantri Awas Yojana, an initiative by Government of India to provide affordable housing to urban poor by 2022, are therefore expected to generate employment leading to improvement in the income levels, which is expected to drive the demand for ACS.

***Prospects*:** The prospect in medium to long-term period will depend upon the ability of the company to continue to expand the scale of operation along with improvement of profitability in a competitive scenario by managing the input price volatility.

Key Rating Weaknesses

Risk associated with volatility in key raw material prices

Raw material consumption cost is the largest cost element accounting for about 53% of the total cost of sales for FY21. The key raw material of ACS segment, i.e., Asbestos fibre (also called Chrysotile Fibre) constituted about 38% of the total raw material cost in FY21 (vis-à-vis about 34% during FY20). Other raw materials required include Woodpulp (non-asbestos segment, also majorly imported) and cement & fly-ash (both ACS and non-ACS segments). VIL is exposed to the risk of price volatility as the price of asbestos fibre is volatile in nature and majorly controlled by few producing countries, since mining of asbestos is banned in most developed countries. India imports almost all of its asbestos fibre requirements from Russia, China, Brazil and Kazakhstan, which together produce around 90% of the world's asbestos fibre and the limited supply of raw material results in volatility in prices thereof. Any price control by producing countries or regulatory directives banning asbestos mining can affect profitability of the manufacturers and disrupt supply. VIL tries to minimize the impact of fibre price fluctuations and potential supply disruptions by entering into year-long contracts for price as well as supply at the beginning of every calendar year. In case of any significant impact on the prices, the same is reviewed on a quarter basis with base prices fixed in the beginning of the year.

VIL imports 99% of asbestos fibre from Russia and remaining from Brazil and Kazakhstan and has to procure raw materials at significantly higher volume to bargain discount from suppliers. The price of asbestos fibre/Woodpulp increased marginally by 4.5% during FY21.

Foreign exchange fluctuation risk

VIL imports majority of its raw materials, with imported raw material accounting for about 28% of the total raw material consumption cost during FY21. This exposes the company to risk associated with volatility in movement of exchange rates. The company has a Forex Committee who monitors the forex transactions and frame the hedging policy. As a policy, the company usually has a forex exposure not exceeding Rs.30-32 crore at any point of time. The company also exports its V-Next products (non-asbestos boards & panels) and synthetic yarn to countries such as Saudi Arabia, UAE, Qatar, Iraq, Iran, Bahrain and Sri Lanka. This results in partial natural forex hedge since forex payout (raw material consumption cost – Rs.142.41 crore in FY21) has been substantial higher than forex inflows (exports – Rs.60.94 crore in FY21) over the years. VIL usually hedges its forex exposure by entering into forward contracts against all long term (over 60 days) payments for SBLC's transaction. Pay-outs for lower period are not hedged given the high forward cover premium. During FY21, the company registered forex gain of Rs.0.52 crore (as against profit of Rs.2.72 crore in FY20) on foreign currency transactions.

Regulatory and environmental issues concerning asbestos

The mining of asbestos and use of asbestos-related products have been banned in most of the developed countries. While mining of asbestos is banned in India, the use of asbestos is permitted in related products, though it has been a matter of litigation in the past with the court's ruling in favour of the ACS industry. However, due to ban on mining of asbestos in India, Indian players are dependent on the asbestos exporting nations like Russia, China, Kazakhstan, Brazil, etc. VIL primarily sources its asbestos primarily from Russia, Kazakhstan, and Brazil. Any regulations against the mining or trading of asbestos in the current major exporting nations can make operations of the Indian players including VIL vulnerable. Nevertheless, the company uses white fibre in place of the banned carcinogenic blue fibre. Besides, the free-floating asbestos used by the company is well below the 0.1 fibre/cc of air mark fixed by the Ministry of Environment.

Liquidity Position: Strong
The working capital cycle of the company improved to 127 days in FY21 from 145 days in FY20 on account of improvement in collection period which improved from 51 days during FY20 to 39 days during FY21. Out of the debtors outstanding as on March 31, 2021 of Rs.106 crore, the company has realized about Rs.92 crore till July 31, 2021. Furthermore, the inventory period of the company also improved slightly, although remained high as 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 liquidity of the company remains strong marked by strong cash accruals against low debt repayment obligation. The company generated adequate cash accruals of Rs.149 crore during FY21 vis-à-vis the repayment obligations of Rs.10 crore in FY22. VIL manages its working capital requirement efficiently, with utilization of fund-based limits being close to nil in the 12 months ended June 2021.

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 (current Chairman), was incorporated in 1981 in Hyderabad, Telangana. The company is engaged in the manufacturing of Asbestos Cement Sheets (ACS), Non-asbestos boards & panels and Synthetic fibre yarns. The business of VIL is divided into two major verticals; Building Products (ACS & Non-asbestos boards & panels) and Textiles (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) through its eight manufacturing units spread across eight states. Additionally, VIL has manufacturing capacity of 170,000 MTPA for non-asbestos boards (branded as V- Next) and 19,750 MTPA for panels through its three manufacturing units, in addition to yarn manufacturing capacity of 2,752 spinning positions at its plant at Nagpur, Maharashtra. The company's building products (ACS and non-asbestos boards and panels) are exported to around fifteen countries while the synthetic yarns are exported to seventeen countries globally.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1055.25	1154.46
PBILDT	113.83	201.30
PAT	49.30	110.64
Overall gearing (times)	0.60	0.27
Interest coverage (times)	6.54	16.48

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	102.62	CARE AA-; Stable
Non-fund-based - ST-Stand by Line of Credit	-	-	-	143.00	CARE A1+
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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	130.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jan-21)	1)CARE AA-; Stable (20-Nov-19)	1)CARE AA-; Stable (22-Nov-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A1+	-	1)CARE A1+ (07-Jan-21)	1)CARE A1+ (20-Nov-19)	1)CARE A1+ (22-Nov-18)
3.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A1+	-	1)CARE A1+ (07-Jan-21)	1)CARE A1+ (20-Nov-19)	1)CARE A1+ (22-Nov-18)
4.	Fund-based - LT-Term Loan	LT	102.62	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jan-21)	1)CARE AA-; Stable (20-Nov-19)	1)CARE AA-; Stable (22-Nov-18)
5.	Fixed Deposit	LT	25.00	CARE AA- (FD); Stable	-	1)CARE AA- (FD); Stable (07-Jan-21)	1)CARE AA- (FD); Stable (20-Nov-19)	1)CARE AA- (FD); Stable (22-Nov-18)
6.	Non-fund-based - ST-Stand by Line of Credit	ST	143.00	CARE A1+	-	1)CARE A1+ (07-Jan-21)	1)CARE A1+ (20-Nov-19)	1)CARE A1+ (22-Nov-18)
7.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	-	-	-	-	-	1)Withdrawn (22-Nov-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
8.	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (07-Jan-21)	1)CARE A1+ (20-Nov-19)	1)CARE A1+ (22-Nov-18)

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities – NA

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.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple
6.	Non-fund-based - ST-Stand by Line of Credit	Simple

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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