

## Visaka Industries Limited (Revised)

October 18, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	361.55 (Enhanced from 232.62)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	173.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>534.55</b> <b>(₹ Five hundred thirty-four crore and fifty-five lakh only)</b>		
Fixed deposit	25.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
<b>Total medium-term instruments</b>	<b>25.00</b> <b>(₹ Twenty-five crore only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and fixed deposit programme of Visaka Industries Limited (VIL) take into account the improvement in the total operating income (TOI) and profitability during FY22 (refers to the period April 01 to March 31) and during Q1FY23, successful commissioning of additional facilities without significant time and cost overrun, 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, and 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. The ratings also derive strength from VIL's 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 the raw material prices and foreign exchange fluctuations, increase in the pledge of shares, 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 and consistent growth in the scale of operation over 10% -15% y-o-y.
- 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

**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

<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

roofing product where solar panels are fused with the company's roofing V-boards. Additionally, VIL has presence in the textiles business wherein it manufactures synthetic yarns, including mélange 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. About 60% of the revenue is generated from the ACS segment and remaining segment contributes 40% of the total revenue.

**Improved operational performance:** The capacity utilisation for the ACS segment has improved from 89% in FY21 to 96% in FY22. The capacity utilisation for the other segments also improved during FY22. Below are the operational details of each segment:

For the period	FY21	FY22
<b>Installed capacity</b>		
Asbestos cement sheet (ACS) – MT	802,000	802,000
Non-asbestos boards & panels – MT	189,750	239,750
Synthetic yarn – Spinning positions	2,752	2,752
<b>Capacity utilisation – Annualised (%)</b>		
Asbestos cement sheet (ACS)	89	96
Non-asbestos boards & panels	71	76
Synthetic yarn	60	90
<b>Sales (₹ crore)</b>		
Asbestos cement sheet (ACS)	807	854
Non-asbestos boards & panels	208	285
Synthetic yarn	136	248
Total	1151	1387

In the ACS segment, the sales volume improved by about 8% resulting in the improvement in the revenue from the segment by about 6%; however, the price realisation declined marginally by 1.88% during FY22. In the non-asbestos boards and panels the sales volume improved significantly by 34% and realisation improved moderately by around 2%-3%. The textile division saw robust growth both in terms of volume as well as profitability. The volume improved by about 50% and realisations improved by 22%. The TOI during FY22 grew by about 24% to ₹1,416.55 crore (PY: ₹1,147.06 crore) with PBILDT moderately grown by 3.28% to ₹199.92 crore (PY: ₹193.57 crore). In terms of margin, the PBILDT margins stood at 14.11% (PY: 16.88%). The dip in the PBILDT margin was on account of increased material cost on account of the ongoing Russia-Ukraine war.

**Robust financial and liquidity position:** VIL enjoys a comfortable liquidity profile at the back of adequate gross cash accruals (GCA; ₹156 crore during FY22) and cash & liquid investments of ₹26 crore as on March 31, 2022. Furthermore, VIL has a favourable capital structure with both debt-equity and overall gearing ratio below unity as on March 31, 2022. The overall gearing remained comfortable, at 0.28x as on March 31, 2022, at the back of healthy accretion of profit to the net worth coupled with scheduled repayment of term loans. The company has converted 800,000 convertible warrants into shares allotted to the promoters and received ₹14.46 crore.

The debt coverage indicators, viz., interest coverage (17.83x in FY22 against 15.85x in FY21) and total debt/GCA (1.33x in FY22 against 1.03x in FY21) also remained comfortable during FY22. In addition, the average working capital utilisation has also remained negligible at around 4% during the 12-month period ended July 2022.

**Widespread marketing distribution network:** VIL has a wide distribution network of more than 7,000 dealers in urban, suburban, and rural areas and it has depots at about 41 cities in India. The company markets its products pan India. Given the limited organised 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 13 marketing offices across the country and has a market share of about 18% in the ACS segment.

**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, 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 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 with considerable experience in the segment and to look after the day-to-day operations.

**Planned capex for further diversification:** Over the last few years, VIL has strategically diversified its product portfolio within the other two segments, i.e., non-asbestos boards & panels and textile, and increased their revenue share to lower its dependence on the ACS business. The company has expanded 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 ₹105 crore being funded through internal accruals. The construction was expected to be completed by FY21; however, got delayed due to COVID-19. The facility has become operational from January 2022. Additionally, the company has also undertaken expansion in the ACS unit by 100,000 MT at the Raebareli plant. The facility has become operational from May 2022. The total cost for capacity enhancement is around ₹70 crore, out of which the company has booked ₹64 crore by August 2022. The company is further planning to expand its Board and panel capacity by 72,000 MT at an estimated cost of ₹120 crore to be funded via internal accruals and borrowings.

**Commitment towards health, safety and environment (ESG):** VIL has placed adequate importance on workforce health and safety. The company has invested 1%-2% of its revenue on ESG initiative. The company has set safety, health & environment targets, which are being regularly reviewed for their continual improvement. The company reported zero health mishaps since inception. For hazardous material company provides personal protection equipment to its employees. As a part of its ESG initiative, the company has also created awareness of water conservation among employees and communities. The waste management at VIL is done in an environment friendly and energy-efficient manner. The company has Occupational Health and Safety Assessment Series (OHSAS) certification on safety management.

#### **Key rating weaknesses**

**Risk associated with volatility in key raw material prices:** The raw material consumption cost is the largest cost element accounting for about 57% of the total cost of sales for FY22. The key raw material of the ACS segment, i.e., asbestos fibre (also called chrysotile fibre) constituted about 33% of the total raw material cost in FY22 (vis-à-vis about 38% during FY21). 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 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.

**Foreign exchange fluctuation risk:** VIL imports majority of its raw materials, with imported raw material accounting for about 40% of the total raw material consumption cost during FY22. This exposes the company to the risk associated with volatility in the movement of exchange rates. The company does not have formal hedging policy; however, the company monitors its forex exposure on day-to-day basis through the reports and guidance from the bankers. The Board of directors of the company also review the forex exposure on quarterly basis. The company has a Forex Committee who monitors the forex transactions and frame the hedging policy. The company also exports its V-Next products (non-asbestos boards and 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. During FY22, the company registered forex gain of ₹0.74 crore (as against gain of ₹0.52 crore in FY21) 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/ml of air mark fixed by the Ministry of Environment.

**Increase in pledge of shares by promoters:** As on June 30, 2022, the promoters have pledged 13.89% shares (June 30, 2021: 9.41%) which constitutes 6.72% of the total share capital of the company. The shares have been pledged for the loans taken by the promoters for their personal purposes.

#### **Liquidity:** Strong

The liquidity of the company remains strong marked by strong cash accruals against low debt repayment obligation. The working capital cycle of the company improved to 98 days in FY22 from 127 days in FY21 (FY20: 145 days) on account of the improvement in the collection period which improved from 39 days during FY21 to 31 days during FY22 (FY20: 51 days). Furthermore, the inventory period of the company also improved significantly from 122 days in FY21 to 94 days in FY22. The company generated adequate cash accruals of ₹156 crore during FY22. VIL manages its working capital requirement efficiently, with utilisation of the fund-based limits being close to 4% in the 12 months ended July 2022. The company has a cash and bank balances of ₹26.04 crore as on March 31, 2022.

#### **Analytical approach**

Consolidated. The subsidiaries of VIL which have been consolidated are mentioned under Annexure-6.

#### **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**

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 902,000 Metric Tonnes Per Annum (MTPA) through its eight manufacturing units spread across eight states. Additionally, VIL has manufacturing capacity of 2,20,000 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 15 countries, while the synthetic yarns are exported to 17 countries globally.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (A)	Q2FY23
Total operating income	1,147.06	1,416.55	482.39	NA
PBILDT	193.57	199.92	66.42	NA
PAT	110.64	118.32	38.52	NA
Overall gearing (times)	0.25	0.28	NA	NA
Interest coverage (times)	15.85	17.83	21.85	NA

A: Audited, 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

#### 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		-	-	-	130.00	CARE AA-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	10.00	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	20.00	CARE A1+
Fund-based - LT-Term Loan		-	-	14/01/2030	231.55	CARE AA-; Stable
Non-fund-based - ST-Standby Line of Credit		-	-	-	143.00	CARE A1+
Fixed Deposit		-	-	-	25.00	CARE AA-; Stable

**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-Cash credit	LT	130.00	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Mar-22) 2)CARE AA-; Stable (14-Sep-21)	1)CARE AA-; Stable (07-Jan-21)	1)CARE AA-; Stable (20-Nov-19)
2	Non-fund-based - ST-Bank guarantee	ST	10.00	CARE A1+	-	1)CARE A1+ (08-Mar-22) 2)CARE A1+ (14-Sep-21)	1)CARE A1+ (07-Jan-21)	1)CARE A1+ (20-Nov-19)
3	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A1+	-	1)CARE A1+ (08-Mar-22) 2)CARE A1+ (14-Sep-21)	1)CARE A1+ (07-Jan-21)	1)CARE A1+ (20-Nov-19)
4	Fund-based - LT-Term loan	LT	231.55	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Mar-22) 2)CARE AA-; Stable (14-Sep-21)	1)CARE AA-; Stable (07-Jan-21)	1)CARE AA-; Stable (20-Nov-19)
5	Fixed deposit	LT	25.00	CARE AA-; Stable	-	1)CARE AA-(FD); Stable (08-Mar-22) 2)CARE AA-(FD); Stable (14-Sep-21)	1)CARE AA-(FD); Stable (07-Jan-21)	1)CARE AA-(FD); Stable (20-Nov-19)
6	Non-fund-based - ST-Standby Line of Credit	ST	143.00	CARE A1+	-	1)CARE A1+ (08-Mar-22) 2)CARE A1+ (14-Sep-21)	1)CARE A1+ (07-Jan-21)	1)CARE A1+ (20-Nov-19)
7	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (07-Jan-21)	1)CARE A1+ (20-Nov-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of 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 guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple
6	Non-fund-based - ST-Standby Line of Credit	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.

#### Annexure-6: List of subsidiaries

Name of companies/ Entities	% of holding
VNEXT Solutions Private Limited	100
Atum Life Private Limited	100

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