Visaka Industries Limited (Revised)

November 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	501.03 (Enhanced from 361.55)	CARE A+; Stable	Revised from CARE AA-; Stable
Short-term bank facilities	183.00 (Enhanced from 173.00)	CARE A1+	Reaffirmed
Fixed deposit	25.00	CARE A+; Stable	Revised from CARE AA-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities and fixed deposit programme of Visaka Industries Limited (VIL) is on account of deterioration in the operating profitability of asbestos segment and substantial increase in the total debt resulting in deterioration of the credit profile of the company. The profitability has been impacted owing to the pricing pressures and resurge in the logistics costs followed by the Russia-Ukraine conflict witnessed in asbestos segment, as the company imports chrysotile asbestos fibre (CAF) which accounts for around 35% of the total raw material cost. Increase in the total debt is attributed by availing term loans for expansion of capacities of both asbestos and non-asbestos segment and higher utilisation of working capital limits during FY23 which resulted in deterioration of the overall gearing to 0.50x as on March 31, 2023 (PY:0.22x).

The ratings continue to derive strength from the experienced promoters and management team as well as the long and established track record of operations of the company with a strong brand image. The ratings also derive strength from the 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, strategical capacity expansion undertaken and moderately diversified revenue stream profile. The ratings continue to factor in the improved operational performance and consistent margins in the non-asbestos segments (i.e., non-asbestos boards and panels, synthetic and solar roofing) which contribute around 45% to the total revenue.

The rating strengths are tempered by the risk associated with volatility in the raw material prices and foreign exchange fluctuations. The ratings are also impacted by the regulatory and environmental issues surrounding asbestos mining, even though the company's operations are within the approved levels.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Continuous diversification of revenue stream and sustainable growth in revenue in the range of 10-15%.
- Improvement in profit level and margin with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin sustaining at above 10%.
- Improvement in total debt (TD) to PBILDT and return on capital employed (ROCE) improving beyond 2x and 15%, respectively.

Negative factors

- Increased debt level resulting in weakening of overall gearing ratio to 0.7x or above, TD/gross cash accruals (GCA) to 5.00 or above.
- Deterioration in the PBILDT margins below 6%.
- Any adverse impact on the business due to changes in regulation w.r.t usage of asbestos fibre and consequently liquidity profile resulting in total debt/PBILDT to 3.5 or above.

Analytical approach: Consolidated

Outlook: Stable

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

Stable outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that the company will continue to derive benefits from the existence of experienced promoters and management team and a strong brand image.

Detailed description of the key rating drivers:

Key strengths

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 asbestos cement sheets (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 currently, the business operations are led by G. Vamsi Krishna S/o G. Vivekanand. 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 to look after the day-to-day operations.

Widespread marketing distribution network

VIL has a wide distribution network of more than 7,000 dealers in urban, suburban, and rural areas, along with depots at about 41 cities in India. The company markets its products PAN India. Given 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 the 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.

Augmenting capacities to proximate to consumption points

The company is engaged in setting up plants proximate to consumption points. Over the last few years, VIL has strategically diversified its product portfolio within the other two segments and increased their revenue share to lower its dependence on the ACS business. The company has expanded the capacity of V-Boards by additional 72,000 MT at Midnapur plant, West Bengal, during FY24 at an aggregate cost of about ₹120.0 crore and the facility shall be operational from November 2023. The company is planning for expanding boards and panels capacity at Delwadi, Pune and Jajjhar, Haryana with 24000 MT each, where the combined project cost is estimated to be ₹80.00 crore. In addition, this company is planning to expand its synthetic yarn unit at Nagpur for which the project cost of ₹60.00 crore is estimated. However, for the planned capex, financial closure has not been achieved.

Diversified revenue with improvement in revenue mix across business segments

VIL has a diversified product portfolio with the company having presence in building products through ACS, non-asbestos boards & 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.
Asbestos, boards and panels and textile segment contributed in the ratio of 56:25:18, respectively, to the overall revenue of the company during FY23 which improved from 69:18:12 during FY21. The company is focusing to improve its revenue mix further to 40:60 from asbestos and non-asbestos segment, respectively, for which it is constantly augmenting capacities of boards and panels.

Optimal utilisation of capacity and improved performance of non-asbestos segments

The capacity utilisation for the ACS segment has improved from 89% in FY21 to 98% in FY23. The capacity utilisation for the other segments also improved during FY23. The operational details are as follows –

For the period	FY21	FY22	FY23
Installed capacity			
ACS – MT	802,000	802,000	830,000
Non-asbestos boards - MT	170,000	220,000	220,000
Non-asbestos panels- MT	19,750	19,750	29,750

For the period	FY21	FY22	FY23
Synthetic yarn – Spinning positions	2,752	2,752	3,040
Capacity utilisation – Annualised (%)			
ACS	89%	96%	98%
Non-asbestos boards	73%	76%	97%
Non-asbestos panels	40%	55%	62%
Synthetic yarn	60%	90%	92%
Sales (₹ crore)			
ACS	791.76	854.02	919.16
Non-asbestos boards	194.81	274.69	387.36
Non-asbestos panels	11.96	16.77	27.67
Synthetic yarn	136.64	248.28	295.90
Total	**1,135.17**	**1,393.76**	**1,630.09**

In the ACS segment, the volume sales have improved by about 6% resulting in improvement in revenue from the segment by about 8% and realisation marginally by 1.68%.

In the non-asbestos boards and panels, the combined sales volume improved significantly by 31% and realisation for boards improved by around 9.5% and panels has been moderated by 3.8%. The textile division witnessed moderate growth both in terms of volume as well as profitability. The volume improved by about 12.33% and realisations improved by 6.1%.

Key weaknesses

Deterioration in debt protection metrics

The company availed a term debt for expansion at Udumalpet plant, Tamil Nadu and Raebareli plant, Uttar Pradesh and utilisation of working capital limits during FY23 has been on higher side on account of advance payment of invoice value to suppliers for import of CAF which resulted in increase of total debt which resulted in weakening of overall gearing to 0.50x as on March 31, 2023 (as against 0.23x as on March 31, 2022).

The debt protection metrics deteriorated during FY23. Interest coverage stood at 6.3x for FY23 (PY: 17.8x) and TDGCA stood at 3.7x as on March 31, 2023 (PY: 1.07x). CARE Ratings expects the capital structure to improve in projected years with the repayment of debt obligation and improvement in accruals on change in revenue mix, and the overall gearing is expected to be around 0.5x with TDGCA in the range of 3x – 5x.

Risk associated with volatility in key raw material prices

Raw material consumption cost is the largest cost element accounting for about 60% of the total cost of sales for FY23. The key raw material of the ACS segment, i.e., asbestos fibre (also called chrysotile fibre) constituted about 37.35% of the total raw material cost in FY23 (PY: 33.5%). Other raw materials required include wood pulp (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.

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. VIL has faced dip in its profitability margins on account of increase in raw material cost in asbestos segment due to ongoing Russia and Ukraine war which has resulted in supply chain disruption. As the raw material had to be re-routed through other countries, the freight cost has also increased considerably. Although VIL did not face any shortage of raw material, in terms of cost the same has increased, all of which could not have been passed on to the customers, which resulted in dip in margin. The company is currently planning to import its raw material from Brazil which also had the required raw material on account of lower freight and logistics costs compared to Russia.

Foreign exchange fluctuation risk

VIL imports majority of its raw materials, with imported raw material accounting for about 47% of total raw material consumption cost during FY23. This exposes the company to the risk associated with volatility in movement of exchange rates. The company does not have formal hedging policy; however, it monitors forex exposure on day-to-day basis through the reports and guidance from bankers. Board of directors of the company also review the forex exposure on quarterly basis. 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 since forex payout (RM consumption cost – ₹394.03 crore in FY23) has been substantial higher than forex inflows (exports – ₹115.62 crore in FY23) over the years. During FY23, the company registered forex gain of ₹2.62 crore (as against gain of ₹0.74 crore in FY22) on foreign currency transactions.

Regulatory and environmental issues concerning asbestos
The building material industry has relatively high exposure to environmental risk as the construction industry accounts for around 37% of carbon emissions. As the effects of climate change have become more apparent around the world, sustainability is a major concerning point in every industry. In the realm of architecture and construction, the materials used shall matter to the natural environment as well as health. The company is involved in manufacturing of ACS and 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 are well below the 0.1 fibre/ml of air mark fixed by the Ministry of Environment.

However, the company's Vnext Boards and panels have low CO_2 emissions during manufacturing. ATUM Solar promotes operational sustainability for rooftops and wonder yarn, made from PET pellets, tackles plastic pollution in oceans. As the company is into manufacturing of cement-based and yarn products, it requires water to manufacture products. For conservation of water, the company has installed digital water metres across the factories along with rainwater harvesting pits to ensure efficient consumption and recharging of underground water.

Liquidity: Adequate

The liquidity of the company is adequate characterised by sufficient cushion in accruals vis-à-vis repayment obligations. The company is expected to generate adequate cash accruals of ₹122.23 crore (PY: ₹104 crore) during FY24 vis-à-vis the repayment obligations of ₹52.33 crore (PY: ₹36.39 crore) (including incremental interest cost). The company has a cash and bank balances of ₹30.57 crore as on March 31, 2023. With the gearing of 0.5x as on March 31, 2023, the company's capital structure is at comfortable level. The company is also expected to incur discretionary capex of ₹130 crore for expansion in non-asbestos segments.

The average working capital limits utilisation levels stood at 70.19% for past 12 months of trailing period ending July 2023 and during September 2023, State Bank of India has enhanced working capital limits from ₹130.00 crore to ₹200.00 crore. The working capital cycle of the company is comfortable to 100 days in FY23 (FY22: 98 days). Considering the cash accruals generated by the company in the recent past and estimated accruals and adequate liquidity cushion in the form of unutilised working capital limits to the extent of ₹109 crore including the recent enhancement, it is expected that the company would be able to meet its debt obligations comfortably.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks
Environmental risks are mentioned as a part of weakness above.
The company has ensured employee safety and employee health through proactive measures and safeguards. Overall, governance risk is idiosyncratic, usually reflecting the corporate culture, strategy, geographic footprint, and group complexity. The company is focusing on the growth of its stakeholders through its long-term perspective, process-driven approach, and integrity.

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Construction materials	Other construction materials	Other construction materials

VIL, promoted by Dr G Vivekanand, was incorporated in 1981 in Hyderabad, Telangana. At present, the company's operations are led by G. Vamsi Krishna S/o G. Vivekanand. The company is engaged in the manufacturing of ACS, non-asbestos boards & panels, synthetic fibre yarns and solar roofing products. The business of VIL is divided into three major verticals: building products (ACS and non-asbestos boards & panels), textiles (synthetic fibre yarns) and solar roofing products. The company is the second-largest player in manufacturing of ACS in India.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,416.51	1,649.20	786.98
PBILDT	200.14	141.17	53.89
PAT	118.53	54.79	6.87
Overall gearing (times)	0.23	0.50	-
Interest coverage (times)	17.85	6.32	3.23

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

List of all the entities consolidated: Annexure-6

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
Fixed deposit	-	-	-	2024#	25.00	CARE A+; Stable
Fund-based - LT-Cash credit	-	-	-	-	200.00	CARE A+; Stable
Fund-based - LT-Term loan	-	-	-	March, 2033	301.03	CARE A+; Stable
Non-fund-based - ST-Bank guarantee	-	-	-	-	20.00	CARE A1+

Non-fund-based - ST-Letter of credit	-	-	-	-	-	20.00	CARE A1+
Non-fund-based - ST-Standby line of credit	-	-	-	-	-	143.00	CARE A1+

The maturity of these deposits fall on different dates depending on the date of each deposit.

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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	200.00	CARE A+; Stable	-	1)CARE AA-; Stable (18-Oct-22)	1)CARE AA-; Stable (08-Mar-22) 2)CARE AA-; Stable (14-Sep-21)	1)CARE AA-; Stable (07-Jan-21)
2	Non-fund-based - ST-Bank guarantee	ST	20.00	CARE A1+	-	1)CARE A1+ (18-Oct-22)	1)CARE A1+ (08-Mar-22) 2)CARE A1+ (14-Sep-21)	1)CARE A1+ (07-Jan-21)
3	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A1+	-	1)CARE A1+ (18-Oct-22)	1)CARE A1+ (08-Mar-22) 2)CARE A1+ (14-Sep-21)	1)CARE A1+ (07-Jan-21)
4	Fund-based - LT-Term loan	LT	301.03	CARE A+; Stable	-	1)CARE AA-; Stable (18-Oct-22)	1)CARE AA-; Stable (08-Mar-22)	1)CARE AA-; Stable (07-Jan-21)

							2)CARE AA-; Stable (14-Sep-21)	
5	Fixed deposit	LT	25.00	CARE A+; Stable	-	1)CARE AA-; Stable (18-Oct-22)	1)CARE AA- (FD); Stable (08-Mar-22) 2)CARE AA- (FD); Stable (14-Sep-21)	1)CARE AA- (FD); Stable (07-Jan-21)
6	Non-fund-based - ST-Standby line of credit	ST	143.00	CARE A1+	-	1)CARE A1+ (18-Oct-22)	1)CARE A1+ (08-Mar-22) 2)CARE A1+ (14-Sep-21)	1)CARE A1+ (07-Jan-21)
7	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (07-Jan-21)

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

Annexure-4: Complexity level of the various instruments rated

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 guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple
6	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

Annexure-5: List of all the entities consolidated

#	Name of the entity	Extent of consolidation	Rationale for consolidation
1	VNEXT Solutions Private Limited	Full	100% subsidiary
2	Atum Life Private Limited	Full	100% subsidiary

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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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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