

## Vipul Organics Limited (Revised)

November 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	11.00	CARE BBB-; Stable	Assigned
Short Term Bank Facilities	29.00	CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Vipul Organics Limited (VOL) derives its strength from experienced management with long track record in the chemical industry, established relationship with well-established and reputed customers/suppliers in chemical industry leading to lower counterparty credit risk and comfortable capital structure and debt coverage indicators. The above rating strengths are however tampered by modest scale of operation, moderate profitability margins susceptible to volatile key raw material prices and working capital intensive nature of operation.

The ratings are further constrained by foreign exchange fluctuation risk, Project execution risk and presence in competitive industry.

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

#### Positive factors

- Increase in total operating revenue above Rs. 250 crore on sustained basis
- Improvement in operating cycle below 80 days on sustained basis
- Improvement in total debt/PBILDT below 2.0x on sustained basis

#### Negative factors

- Deterioration in capital structured marked by overall gearing above 1.25x on sustained basis
- Timely completion of planned capex for new plant without any major cost overrun
- Deterioration in PBILDT margins below 8.0% on sustained basis

### Analytical approach: Consolidated

CARE has adopted a consolidated approach to assess the risk profile of Vipul Organics Limited (VOL) and its subsidiary, i.e., Shree Ambika Naturals Private Limited (SANPL). The consolidation is in view of common management and operating in the same line of business. As of March 31, 2023, VOL holds a 56.04% stake in SANPL.

### Outlook: Stable

The Stable outlook reflects CARE's expectations of improvement in the scale of operations and profitability margin along with efficient management of the working capital cycle.

### Detailed description of the key rating drivers:

#### Key strengths

##### Experienced management with long track record in the chemical industry

Incorporated in 1972, Vipul Organics Limited (Formerly known as Vipul Dye Chem) is managed by team of highly experienced professionals led by Chairman and Director Mr. Vipul Shah who possess three decades of experience in the industry. Mr. Mihir Shah is whole time director and chief financial officer. All the directors are supported by professional second line of management in the field of human resources, finance & purchase and sales & marketing.

##### Comfortable capital structure and debt coverage indicators

VOL's capital structure stood comfortable in past (FY19-22) on account of lower debt availed to fund its business operations coupled with moderate net-worth base. As on March 31, 2023 capital structure of VOL has remained comfortable, however deteriorated marginally marked by overall gearing to 0.61 times as on March 31, 2023 vis-à-vis 0.58 times as on March 31, 2022 owing to new working capital term loan amounting to Rs. 1.60 crore availed to fund the growing scale of operation. The interest coverage ratio also remained comfortable at 4.36x in FY23 vis-à-vis 9.47x in FY22, deterioration in current year is owing to higher

<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

interest expense and lower PBILDT in FY23. Furthermore, VOL is planning to take new term loan to carry out its planned capex for adding new plant in Gujarat owing to which we expect there will be marginal deterioration in capital structure in the medium term.

#### **Established relationship with well-established and reputed customers/suppliers**

Over the past five decades of its existence, VOL has established healthy relationship with reputed players in the pigments and dyes in the Indian and export market and receive repeat orders from them. Its esteemed clientele include companies namely Soujanya Color Private Limited, Suplica B.V, Axenic Chemicals Private Limited and others. Furthermore, VOL has diversified customer base as during FY23 top ten customers contributed around 16.7% vis-à-vis 14.9% in FY22 to the total sales. VOL has diversified its supplier base, as the top 10 suppliers contributed 24.6% in FY23 vis-à-vis 14.8% in FY22 to the total purchases. This has also ensured lower counterparty credit risk for the company.

#### **Key weaknesses**

##### **Modest scale of operations**

The scale of operation of Vipul Organics Limited (VOL) is modest and has grown at a CAGR of 14.5% in the past 4 years (FY19 to FY22) due to growing demand. Owing to foreign exchange rate fluctuations and global supply chain disruptions due to Russia-Ukraine war during FY23, the demand remained modest. The same resulted in stagnant sales and reduced realization with total operating income of Rs. 133.93 crore in FY23 vis-à-vis Rs. 134.49 crore in FY22. Nevertheless, comfort can be drawn as the company has been receiving orders from diverse client base and the demand has picked-up in FY24 and VOL posted TOI stood of Rs. 36.24 crore. However, despite the growth the sale of operation remains modest.

##### **Moderate profitability margins susceptible to volatile key raw material prices**

The profitability margins of the VOL remained moderate in the range of 7.02% to 13.96% in the past four years (FY19 -FY22) as the margins are susceptible to the prices of its key raw materials namely (Naphthalene, Benzene derivatives) and exchange rate fluctuations as the majority of revenue is derived from exports. In FY23, PBILDT margins deteriorated and stood at 8.69% vis-à-vis 11.55% in FY22, owing to an increase in utility costs and reduced realization. Nevertheless, the profit margins of the company though declined yet it remained at moderate level. PAT margin also declined to 1.40% in FY23 vis-à-vis 5.18% in FY22, owing to an increase in depreciation and interest costs. Furthermore, the planned capex for adding new plant in Gujarat is backward integration project and hence it will reduce cost of raw materials and thus it will improve the margin going forward.

##### **Working capital intensive nature of operations**

The operations of the VOL are working capital intensive in nature owing to funds being blocked into inventory and debtors. VOL has to maintain inventory to meet increasing demand as well as the prompt requirements from its customers. Inventory days elongated to 102 days vis-à-vis 77 days in FY22 owing to exchange rate fluctuations and global supply chain disruptions due to Russia-Ukraine war as the demand remained modest. VOL provides 60-90 days of credit to its customers, owing to which its collection period remains stretched at ~104 days in FY23 vis-à-vis ~107 days in FY22. However, in absolute term there is reduction in receivables from Rs. 42.61 crore in FY22 to Rs. 34.00 crore in FY23. Also, comfort can be drawn from the fact that 85% of debtors are covered under ECGC scheme and hence there is very minimal risk of bad debts. Owing to above operating cycle stood at 99 days in FY23 vis-à-vis 75 days in FY22 as sufficient credit is received from them owing to established relationship with them over the years.

##### **Foreign exchange fluctuation risk**

VOL derives its majority of revenue from exports by supplying in more than 40 countries worldwide. In FY23, VOL generated 65% vis-à-vis 74% in FY22 of its revenue from the export markets. The company has reported an exchange rate loss of Rs. 0.55 crore in FY23 and a gain of Rs. 1.30 crore in FY22. Furthermore, the company also imports some of its goods, which provides a natural hedge to a certain extent; however, any adverse movement in foreign currency rates may impact the company's profit margin.

##### **Project execution risk**

In order to be an integrated player, VOL has undertaken a backward integration project at Saykha, Gujarat, thereby they will produce intermediates namely Naphthalene, Benzene derivatives which are used as raw materials for its existing products. The total cost of the above project would be approximately Rs.39.08 crore and is likely to commence the commercial production by FY25. The successful commissioning of the above project will lead to improvement its profitability margins in further. Thus, going forward VOL's ability to arrange the sufficient funds to complete the project in timely without any cost and time overrun shall be critical from credit perspective.

##### **Presence in fragmented and competitive nature of industry**

Company operates in a competitive and fragmented industry. The company witnesses intense competition from both the other organized and unorganized players domestically. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

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

Adequate liquidity is characterized by sufficient cushion in accruals vis-à-vis repayment obligations of Rs.3.91 crore in FY24

against gross cash accruals of Rs. 7.71 crore in FY23. The liquid cash and bank balance stood at Rs. 4.38 crore as on March 31, 2023. Further, the current ratio and quick ratio stood low at 1.36 times and 0.78 times respectively as on March 31, 2023 vis-à-vis 1.29 times and 0.83 times respectively as on March 31, 2022.

### Applicable criteria

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Manufacturing Companies](#)

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Dyes And Pigments

Vipul Organics Limited (formerly Vipul Dye Chem) was founded in 1972 by Mr. Pravinchandra B. Shah and was later listed on the Bombay Stock Exchange in 1995. VOL is engaged in the manufacturing of pigments and dyes which finds application in textiles, pharmaceutical, paint, plastic and other industries. VOL has three manufacturing plants located at Ambarnath, Palghar, and Boisar in Maharashtra with total installed capacity of 3120 MT PA which is utilized at 70%. VOL derives majority of its revenue (accounting for 75% in FY23) from exports to 40+ countries. VOL procures its raw materials i.e intermediates domestically from the reputed suppliers.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	134.49	133.93	36.23
PBILDT	15.53	11.63	2.70
PAT	6.97	1.87	0.51
Overall gearing (times)	0.58	0.61	NA
Interest coverage (times)	9.47	4.36	NA

A: Audited UA: Unaudited; NA: Not available, Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** CRISIL, vide its press release dated November 30, 2022, reviewed the ratings assigned to the bank facilities of VOL under Issuer Non cooperation category, as the company did not provide the requisite information needed to conduct the rating exercise.

India Ratings, vide its press release dated September 12, 2023, reviewed the ratings assigned to the bank facilities of VOL under Issuer Non cooperation category, as the company did not provide the requisite information needed to conduct the rating exercise.

**Any other information:** Not available

**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

**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	-	-	-	-	3.89	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	-	29.00	CARE A3
Fund-based-Long Term	-	-	-	May 30, 2027	7.11	CARE BBB-; 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 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-Long Term	LT	7.11	CARE BBB-; Stable				
2	Fund-based - LT-Cash Credit	LT	3.89	CARE BBB-; Stable				
3	Fund-based - ST-EPC/PSC	ST	29.00	CARE A3				

\*Long term/Short term.

**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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Fund-based-Long Term	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.

## Contact us

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Akhil Goyal Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3590 E-mail: <a href="mailto:akhil.goyal@careedge.in">akhil.goyal@careedge.in</a></p> <p>Ruchi Sanghavi Assistant Director <b>CARE Ratings Limited</b> Phone: +91-22-6837 4337 E-mail: <a href="mailto:ruchi.shroff@careedge.in">ruchi.shroff@careedge.in</a></p> <p>Harsh Dhanwani Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Harsh.Dhanwani@careedge.in">Harsh.Dhanwani@careedge.in</a></p>
---	---

### 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.

### Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,  
please visit [www.careedge.in](http://www.careedge.in)**