

Vipul Organics Limited September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	36.16 (Enhanced from 11.00)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	36.00 (Enhanced from 29.00)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Vipul Organics Limited (VOL) continue to derive strength from experienced management with long track record in the chemical industry, established relationship with well-established and reputed customers/suppliers in chemical industry and comfortable capital structure and debt coverage indicators.

The above rating strengths, however, are tempered by modest scale of operations, moderate profitability margins which are susceptible to volatile key raw material prices and working capital intensive nature of operations. 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 ongoing capital expenditure (capex) without any major cost overrun
- PBILDT margins below 8% 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 same line of business. As of March 31, 2023, VOL holds a 56.04% stake in SANPL. (refer annexure- 6)

Outlook: Stable

The Stable outlook reflects CARE's expectation that VOL is likely to maintain its operational and financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced management with long track record in the industry

Incorporated in 1972, VOL (Formerly known as Vipul Dye Chem) is managed by a 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 a 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.

Established relationship with reputed customers

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 includes companies namely Rust-Oleum Corporation, Soujanya Color Private Limited, Suplica B.V, Axenic Chemicals Private Limited and others. VOL has a diversified customer base with top ten customers accounting for ~25% of TOI during FY24 (Refers to April 01 to March 31).

Comfortable capital structure and debt coverage indicators

VOL's capital structure continues to remain comfortable marked by overall gearing of 0.54x as on March 31, 2024 (P.Y. 0.61x). The marginal improvement is on account of scheduled repayment of term loans along with improvement in net worth base. Further, the debt coverage indicators also remained comfortable as marked by Interest coverage ratio and TDGCA of 4.86x and 3.64x respectively as on March 31, 2024 (P.Y. 4.36x and 4.16x). The financial risk profile of the company is expected deteriorate marginally on account of ongoing debt funded capex, however, is likely to improve over the medium term.

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

Key weaknesses

Modest scale of operations

VOL's scale of operations continues to remain modest. TOI increased by ~12% during FY24 to Rs.150.17 crore from Rs.133.93 crore in FY23. The growth was largely driven by higher sales realisations, while sales volumes declined marginally. VOL reported Total Income of Rs.38.20 crore in Q1FY25 (Refers to April 01 to June 30) against Rs.36.14 in Q1FY24. Ongoing capex is expected to result in gradual increase in VOL's scale of operations over the medium term.

Moderate profitability, susceptibility to volatile raw material prices

VOL's profitability margin is susceptible to the volatility in prices of its key raw materials namely (Naphthalene, Benzene derivatives) and exchange rate fluctuations as majority of revenue is derived from exports. During FY24, PBILDT margins deteriorated to 7.79% vis-à-vis 8.69% in FY23, owing to an increase in cost of raw materials. Further, owing to lower depreciation and finance cost and higher non-operating income, PAT margin improved to 2.22% in FY24 as against 1.40% in FY23. PBILDT margins are expected to improve in the near term on post completion of the ongoing backward integration project.

Working capital intensive nature of operation

The operations of the VOL are working capital intensive in nature owing to funds being blocked into inventory and debtors. Inventory days improved to 94 in FY24 vis-à-vis 102 days in FY23. VOL generally provides 60-90 days of credit to its customers. Approximately 80% of debtors are covered under Export Credit Guarantee Corporation of India (ECGC) scheme which lowers the probability of bad debts. Operating cycle improved marginally but remained moderate at 93 days in FY24 vis-à-vis 99 days in FY23.

Foreign exchange fluctuation risk

During FY24, VOL generated 68% (65% in FY23) of its revenue from the export markets. The company has reported an exchange rate loss of Rs.0.09 crore in FY24 vis-à-vis gain of Rs.0.55 crore in FY23. Since majority of the operations are relied on exports, any adverse movement in foreign currency rates may impact the company's profitability margin.

Project execution risk

VOL is undertaking a backward integration project in Saykha, Gujarat, to produce naphthol and fast bases for its existing products. The project, expected to be operational by Q1FY26, will be funded through a mix of term debt, internal accruals and equity. Additionally, VOL is expanding its Ambernath unit's capacity from 720 MTPA to 2160 MTPA, with completion anticipated by Q3FY25. Out of combined capex outlay of ~Rs.50 crore, VOL has incurred ~36% of the total cost until August 2024. The company's ability to complete these projects without major time and cost overrun is crucial for its future revenue and profitability growth.

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

Liquidity position of VOL remained adequate marked by sufficient gross cash accruals vis-à-vis debt repayment obligation. Further, the average utilization of its cash credit and other working capital limits remained at 43% and 38% respectively for 12 months ending July 31, 2024. Further, the current ratio and quick ratio remained at 1.26 times and 0.81 times respectively as on March 31, 2024 (P.Y. 1.36 times and 0.78 times). The liquid cash and bank balance and fixed deposit remained at Rs. 0.76 crore and Rs. 1.38 crores respectively as on March 31, 2024.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Nonfinancial Sector](#)

[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 Ambernath, Palghar, and Boisar in Maharashtra with total installed capacity of 3120 MTPA. VOL derives majority of its revenue (accounting for 69% in FY24) from exports to 40+ countries. VOL procures its raw materials i.e. intermediates domestically from the reputed suppliers.

Brief Financials (₹ crore) (Consolidated)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	133.93	150.99	38.20
PBILDT	11.72	12.62	3.41
PAT	1.98	3.34	1.14
Overall gearing (times)	0.60	0.52	NA
Interest coverage (times)	4.39	5.24	5.88

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 January 31, 2024, 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 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

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		-	-	-	3.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	31-04-2029	33.16	CARE BBB-; Stable
Fund-based - ST-EPC/PSC		-	-	-	36.00	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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	33.16	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Nov-23)	-	-
2	Fund-based - LT-Cash Credit	LT	3.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Nov-23)	-	-
3	Fund-based - ST-EPC/PSC	ST	36.00	CARE A3	-	1)CARE A3 (06-Nov-23)	-	-

LT: Long term; ST: 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 - LT-Term Loan	Simple
3	Fund-based - ST-EPC/PSC	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Shree Ambika Naturals Private Limited	Full	Subsidiary (VOL holds 56.04%)

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:

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