Vinati Organics Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	237.00 (Enhanced from 110.00)	CARE AA+; Stable / CARE A1+	Reaffirmed
Long-term bank facilities	-	-	Withdrawn
Short-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Vinati Organics Limited (VOL) draw significant comfort from its market leadership in its two key products, 2-acrylamido-2-methylpropane sulfonic acid (ATBS) and isobutyl benzene (IBB) – in the global market. CARE Ratings Limited (CARE Ratings) believes that VOL's competitive advantage in both its product segments is expected to sustain in the medium term, as the manufacturing processes are not easy to replicate, and the same acts as an entry barrier for new entrants. Ratings continue to derive strength from the long-track record and experience of the promoters in the speciality organic chemical industry. VOL continues to benefit from long-term relationship with an established and reputed clientele across geographies. The backward integrated manufacturing process with zero discharge and VOL's cost-efficient operations acts as an entry barrier for new entrants. Ratings derive strength from the healthy cash flows from operations, the favourable capital structure, strong liquidity, and debt coverage indicators.

Ratings continue to be tempered by the concentration of its total operating income (TOI) from limited key products and VOL's operating margin susceptible to raw material price and foreign exchange fluctuations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing TOI on the back of increased demand from the existing products and effective diversification in product profile while maintaining an operating margin of around 27-30%.

Negative factors

- Significant debt-funded organic or inorganic expansion undertaken by the company that will adversely impact its capital structure marked by an overall gearing higher than 0.3x.
- Weakening of its return on capital employed (ROCE) below 15% having an adverse impact on its debt coverage indicators.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered the consolidated financials for arriving at the rating owing to operations in similar line of business and business linkages that exists with its subsidiaries. VOL incorporated a wholly owned subsidiary named Veeral Organics Private Limited on October 05, 2020. The list of companies that are consolidated to arrive at ratings are given in **Annexure-6** below.

Outlook: Stable

The stable outlook reflects the sustenance of the company's business and financial risk profiles amidst healthy cash flow generation from operations and absence of large debt-funded capex or acquisition plans in the medium term.

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

Detailed description of key rating drivers:

Key strengths

Vast experience of promoters in the specialty chemical business

VOL is promoted by Vinod Saraf, first-generation entrepreneur who has over five decades of experience in the chemical industry. The company's day-to-day operations are managed by a team of qualified and experienced personnel headed by Vinod Saraf. Besides, his daughter, Vinati Saraf, has also been actively involved in managing the business as MD & CEO of the company.
Under the leadership of Vinod Saraf, VOL has grown both in terms of capacities and the basket of products manufactured by it, becoming world's largest manufacturers and sellers of Isobutyl Benzene (IBB) and ATBS with a significant market share in both the product categories.

Backward integrated manufacturing of ATBS and butyl phenols

VOL is the only backward integrated manufacturer of ATBS and butyl phenols with its own Isobutylene (IB) manufacturing unit, making its operations more cost efficient. Well-integrated product portfolio has helped VOL to achieve high operational efficiencies and produce high-quality products.

Long-established relationship with reputed clients with diversified presence

VOL has been able to maintain long-term relationship with its clients over the years with its client list including reputed companies, such as Chemtall Inc., BASF Corporation, Mitsubishi Corporation, SNF, and Dow Europe GMBH among others. VOL enters long-term supply contracts with its customers, for its two primary products IBB and ATBS. It is an export-oriented company with around 54% of its revenues from exports. It supplies to over 40 countries across the world with majority exports to the US, Europe, Japan, and China.

Healthy operating performance

VOL witnessed TOI de-growth of around 9% in FY24 y-o-y partly attributed to lower ATBS volumes. The decline in ATBS sales was attributed to inventory build-up by customers in the second half of FY23. However, in Q1FY25, total income improved by around 20% YoY, driven by improved volumes in BP and antioxidants along-with destocking largely over. The company expects the demand to be robust in the coming years, owing to which, it has announced the expansion of its capacity from 40,000 tonne per annum (TPA) to 60,000 TPA with commissioning scheduled for January 2025. ATBS demand is expected to increase, as upstream oil and gas companies are focusing more on enhanced oil recovery (EOR) rather than drilling in new fields. While IBB demand is expected to remain subdued in FY25, the growth momentum for IB and BP is expected to continue in FY25. While gross margins declined to 46.49% in FY24 from 47.96% due to modest increase in raw material cost, EBITDA margins declined further to 25.36% (PY: 28.95%) due to increase in employee cost and change in product mix towards AOs and BP. Gross margin is expected to improve going forward as the increased cost is likely to be passed on to customers. In Q1FY25, operating margins declined to 25.08% from 27.85% in Q1FY24 due to change in product mix towards BP and AOs.
VOL is currently undertaking a capex of around ₹580 crore (around ₹300 crore in VOL for ATBS capacity expansion and around ₹280 crore in Veeral Organics Private Limited [VOPL; 100% subsidiary of VOL], which will enable it to manufacture MEHQ, Guaiacol, and Iso Amylene derivatives. Future revenue growth will be supported by the increasing demand for ATBS and BP and incremental revenue from VOPL and AOs.

Robust financial risk profile

To increase its scale of operations and diversify its revenue base, the company has been consistently adding capacities of its existing product lines and introducing new products. The healthy cash flows from operations have helped VOL to fund its capex entirely from internal accruals thus, resulting in a healthy capital structure. In FY24, VOL reported cash flow from operations of ₹331.83 crore and it had cash and cash equivalents (including investments) of around ₹37.08 crore as on March 31, 2024. Moreover, VOL's fund-based working capital limit utilisation also remains low thus, providing additional comfort.

Diversification with new antioxidants through amalgamation of Veeral Additives Private Limited (VAPL)

VAPL is engaged in the manufacture of antioxidants (AOs) used in plastics, low density polyethylene (LDPE), linear low-density polyethylene (LLDPE), and polypropylene. This company was acquired by Vinod Saraf five years back. To streamline operations and unlock synergies, VAPL was merged with VOL in FY24. This merger allowed VOL to acquire the entire value chain and enhanced its market presence in the AO segment. Consequently, VOL has become India's largest and one of the Asia's largest AO manufacturing setups, with a capacity of 24,000 tonnes p.a. AOs represent an emerging business segment. VOL benefits from backward integration, as it produces both BP and IB, essential ingredients for AOs. This integration helps the company to save costs and improve production efficiency, providing incremental revenue opportunities in the AO business. Despite a muted global demand scenario, VOL's AO business gained traction. Management expects this business to be a significant growth driver as capacity utilisation increases. The supply of AOs began in FY24, generating revenue of ₹131 crore. New AOs are planned for launch in H2FY25, with expected revenue from this segment to double in FY25. These AOs have addressable market size of more than ₹2,500 crore.

Liquidity: Strong

VOL's liquidity is marked by healthy cash accruals from operations against no long-term debt repayment. VOL has unencumbered cash and liquid investments of ₹36.10 crore as on March 31, 2024, thus providing support to the company's liquidity position. VOL has been regularly reporting healthy cash flow from operations and the same stood at ₹331.83 crore in FY24 (PY: ₹515.02 crore). With a negligible overall gearing, VOL has sufficient headroom to raise additional debt for its capex. Working capital limits are mostly used to meet non-fund-based requirements with little fund-based utilisation.

Key weaknesses

Product concentrations risk although diversifying gradually

Despite having a well-integrated product portfolio, VOL continues to derive majority of its revenues from its key products, IBB and ATBS. In FY24, VOL derived around 49% (PY: 62%) of its total revenues from these two products combined. Nonetheless, diverse application of ATBS reduces the product concentration risk up-to a certain extent. Moreover, the company has added four varieties of BP to its product portfolio and successful ramping of product will reduce its reliance on the two major products to an extent. BP contributed around 15% (PY: 14%) to total revenues in FY24. In Q1FY25, BP contributed around 18% to total revenues. AOs, which contributed around 7% to total revenues in FY24 is expected to increase as AO sales gain momentum with new AO launches and is expected to contribute to around 15-20% of the total revenue going forward.

Moderation in margins with change in product mix, however, continues to be at healthy levels

VOL had been consistently reporting high operating margins ranging between 35% and 42%. EBITDA margins in FY20 and FY21 were high as a result of higher contribution of revenue from ATBS, which is a high-margin product. However, with introduction of BP and AOs (lower margin products) and consequent change in product mix, the margins have moderated yet remained healthy at ~25% and is expected to be in the same range in the medium term as well.

Exposure to raw material volatility and foreign currency fluctuations

Crude derivatives such as toluene, propylene, acrylonitrile, and methyl tert butyl ether are the key raw materials required in manufacturing of IBB and ATBS. The company procures toluene from Reliance Industries Limited (RIL) and local traders, whereas propylene is sourced from local refineries such as Bharat Petroleum Corporation Limited (BPCL). The pricing terms are based on the base prices of toluene and propylene, which are published by Platts (leading global provider of energy and metals information). VOL follows a cost-plus mark-up formula for pricing of its products and as such is able to pass on raw material price increase to its customers. Being a net exporter, VOL is exposed to foreign exchange fluctuation risk. The company has natural hedge up-to the extent of imports. However, as the company does not hedge fully its foreign currency exposure, it remains exposed to adverse movement in the foreign exchange. As on March 31, 2024, the company had net unhedged USD exposure of ₹216.82 crore (PY: ₹158.27 crore) and net unhedged Euro exposure of ₹9.76 crore (PY: ₹7.61 crore).

Environment, social, and governance (ESG) risks

Environmental

- In continuous focus towards reducing its environmental footprint, VOL has 33 MW of solar power plant to support its ESG goals transitioning from coal-based to renewable energy sources, decreasing greenhouse gas emissions.
- At present, 55% of VOL's electricity requirement is met through renewable energy.
- VOL's main products IBB, ATBS, IB and HPMTBE are manufactured at its two plants based out of Mahad & Lote. Both these plants have reduced effluence discharge. VOL is continuously working on further reducing effluents for both the manufacturing plants.
- The company has been proactively engaged into converting waste/residuals from its manufacturing processes into valuable and useful products not only minimising the waste generated but also creating a source of revenue to the company. At its Mahad plant, the company recovers pure NBB and at Lote plant, VOL manufactures Tertiary Butyl Acrylamide, which is a co-product obtained from manufacturing ATBS. It also recovers ATFE Bottom Polymers at Lote plant. Continuous efforts are being made to reduce, recycle, and reuse the residue.

Social

VOL's initiatives span education, healthcare, sanitation, water, and environmental conservation, making significant impacts in Maharashtra and Rajasthan.

Governance
Notably, 50% of its board comprises independent directors (four out of eight directors) including four women directors.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & petrochemicals	Specialty chemicals

Incorporated in 1989, VOL is one of India's leading manufacturers and exporters of specialty organic intermediaries, monomers, and polymers. VOL is the world's largest manufacturer of isobutyl benzene (IBB) and 2-Acrylamido 2-Methylpropane Sulfonic Acid (ATBS). In an effort towards backward integration, VOL manufactures Isobutylene (IB), one of the key components used in manufacturing ATBS. Besides, VOL also manufactures butyl phenols, Normal Butylbenzene (NBB), Hexenes, N-Tertiary Butyl Acrylamide (TBA), high purity methyl tertiary butyl amine (HP-MTBE) and other industrial monomers on a small scale. Moreover, the company also manufacturers Tertiary Butyl Amine (TB-Amine), Tertiary Butyl Benzoic Acid (PTBBA), and a couple of customized products. Also, VOL plans to expand its product portfolio through Veeral Organics Ltd (fully owned subsidiary) by introducing products such as MEHQ and Guaiacol (2000 MT) and Iso Amylene (30000 MT).

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	2,110.77	1,914.40	533.98
PBILDT	611.16	485.49	133.93
PAT	419.16	322.97	84.16
Overall gearing (times)	0.02	0.00	NA
Interest coverage (times)	187.68	97.99	300.83

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

CareEdge RATINGS

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 and Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-CC/PC/Bill discounting	-	-	-	-	237.00	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (06-Oct-22)	1)CARE A1+ (01-Oct-21)
2	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST	237.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (09-Oct-23)	1)CARE AA; Positive / CARE A1+ (06-Oct-22)	1)CARE AA; Stable / CARE A1+ (01-Oct-21)
3	Fund-based - LT-Cash credit	LT	-	-	-	1)CARE AA+; Stable (09-Oct-23)	1)CARE AA; Positive (06-Oct-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT/ ST-CC/PC/Bill discounting	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Veeral Organics Private Limited	Full	Wholly Owned Subsidiary with strong linkages

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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