Visaka Industries Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	460.92 (Reduced from 501.03)	CARE A+; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	8.04	CARE A1+	Assigned
Short-term bank facilities	183.00	CARE A1+	Reaffirmed
Fixed deposit	25.00	CARE A+; Negative	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the long-term rating outlook for Visaka Industries Limited (VIL) reflects the company's moderated performance in FY24, characterised by a decline in total operating income (TOI), significant reduction in profitability margins, and overall weaker debt coverage metrics. CARE Ratings Limited (CARE Ratings) anticipates that the company's overall performance in FY25 will remain subdued, with a modest improvement expected in the second half of FY25.

Ratings continue to derive strength from experienced promoters and management team and the long and established track record of the company's operations with a strong brand image. 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, diversification in non-asbestos segment, and moderately diversified revenue profile.

The rating strengths are tempered by the risk associated with raw material price volatility and foreign exchange fluctuations. 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 between 10% and 15%.
- Improving profit level and margin with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin sustaining above 10%.
- Improving total debt (TD) to PBILDT below 2x.

Negative factors

- Increased debt level resulting in TD/PBILDT to 3.50x-4.00x on a sustained basis.
- Adversely impacting business and consequently liquidity profile due to changes in regulation w.r.t usage of asbestos fibre.

Analytical approach: Consolidated

CARE Ratings has adopted a consolidated approach for arriving at ratings of VIL, given the linkages with its subsidiaries. The list of companies considered for consolidation is given under Annexure-6.

Outlook: Negative

The negative outlook reflects moderated performance of the company in FY24, with declining TOI, reduced profitability margins, and weaker debt coverage metrics. CARE Ratings anticipates that the company's overall performance in FY25 will remain subdued, with a modest improvement expected in the second half of FY25. Ratings will be revised to stable if the company's operational performance improves leading to better PBILDT margins and debt coverage metrics.

[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

Experienced promoters with long track record of operation of the company

VIL's promoters 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. VIL's business operations 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 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 10,000 dealers in urban, suburban, and rural areas, and 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 34 marketing offices across the country and has a market share of about 18% in the ACS segment.

Diversified revenue stream

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 company's roofing V-boards. Additionally, VIL has presence in textiles business wherein it manufactures synthetic yarns which includes mélange yarns, high twist yarn, and specialty yarns with different blend styles, which is supplied to major textile players, including Siyaram, Raymonds, Arvind Mills, and Donear among others. In FY24, the company received 60% revenue from ACS segment, 25% from non-asbestos boards & panels, and about 14% from textile segment.

Successful addition of capacity in non-asbestos segment, Board and Panel division

Over the last few years, VIL has strategically diversified its product portfolio to lower its dependence on the ACS business. The company has expanded the capacity of V-Boards by additional 72,000 metric tonnes (MT) at Midnapur plant, West Bengal, in FY24 at an aggregate cost of about ₹130 crore.The facility has become operational from October 2023. Currently, the company has a total capacity of 321,750 MT capacity in board and panel division up from 189,750 MT in FY21. The capacity utilisation of the company had been efficient. In asbestos segment, the capacity utilisation is about 95%, while for non-asbestos board and panel division the capacity utilisation remained at about 72%. The company is consciously trying to improve its revenue contribution from board and panel division. CARE Ratings expects that with the improvement in the contribution from other segments, the revenue contribution from ACS segment in the medium term is expected to reduce to 50% from current 60%.

Stable operational performance albeit declining margins

The company's operational performance over the years had remained stable. However, there has been a declining trend especially in operating margins in last three years. The company's TOI improved from ₹1,050 crore in FY20 to ₹1,527 in FY24 crore growing at compounded annual growth rate (CAGR) ~10%. However, in FY24, considering overall slowdown leading to tepid demand for building materials and textile yarn, the TOI declined from ₹1,656 crore to ₹1,526 crore - a de-growth of ~8%. The company's PBILDT margins declined by 274 bps to 5.76% in FY24 against 8.50% in FY23. The increase in raw material price which could not be fully passed and fixed cost led to decline in the company's operating margins. However, in Q1FY25, PBILDT margins have improved to 8.52%. CARE Ratings notes that the decline in overall performance is not company specific, but it is industry phenomena.

Key weaknesses

Moderated overall financial profile

The company's financial profile has weakened due to moderation in overall performance. The debt-to-equity ratio and overall gearing considering lower profitability and higher debt (for expansion) have deteriorated to 0.36x and 0.71x, respectively, as on March 31, 2024, from 0.27x and 0.50x as on March 31, 2023. The debt coverage indicators have also moderated: interest coverage interest coverage (2.40x in FY24 against 6.31x in FY23), total debt/GCA (8.91x in FY24 against 3.71x in FY23), and total debt to PBILDT (6.12x in FY24 against 2.75x in FY23).

Risk associated with volatility in key raw material prices

Raw material consumption cost is the largest cost element accounting for about 59% of the total cost of sales for FY24. The key raw material of ACS segment, Asbestos fibre (also called Chrysotile Fibre), constituted about 40% (PY: 36%) of the total raw material cost in FY24. Other raw materials required include Woodpulp and cement & fly-ash (both ACS and non-ACS segments). VIL is exposed to 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, 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 considering increase in raw material cost in asbestos segment due to ongoing Russia – Ukraine, war which has resulted in supply chain disruption. The raw material had to be re-routed through other countries. Although VIL did not face shortage of raw material, the same increased in terms of cost, all of which could not be passed on to the customers, which resulted in dip in margin. However, there is easing on the raw material cost during FY25.

Foreign exchange fluctuation risk

VIL imports majority of its raw materials, with imported raw material accounting for about 53% of total raw material consumption cost in FY24. This exposes the company to risk associated with volatility in movement of exchange rates. The company does not have formal hedging policy; however, it monitors its forex exposure daily through the reports and guidance from bankers. The company's Board of directors also review the forex exposure quarterly. 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 & 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 – ₹387.02 crore in FY24) has been higher than forex inflows (exports – ₹100.63 crore in FY24) over the years. In FY24, the company registered forex gain of ₹0.097 crore (as against gain of ₹2.62 crore in FY23) 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 and health. The company is involved in manufacturing ACS and mining 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 depend on the asbestos exporting nations including Russia, China, Kazakhstan, and Brazil, among others. 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 in 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 cement-based and yarn products, it requires water for manufacturing. For conservation of water, the company has installed digital water metres across the factories and rainwater harvesting pits to ensure efficient consumption and recharging of underground water.

Liquidity: Adequate

The company's liquidity remains adequate marked by adequate cash accruals against debt repayment obligations. In FY24, the company generated cash accruals of about ₹60 crore against the repayment obligations of ~₹42 crore. The company also had cash and liquid investments of about ₹38 crore as on March 31, 2024. The company's working capital cycle stretched to 126 days from 101 days in FY23. The company is expected to generate cash accruals in the range ₹80-₹90 crore in FY25 against the repayment obligations of ~₹60 crore. The company does not have plans to undertake major capex. The working utilisation for the fund-based facility remained comfortable at ~57% for the 12-month ending in August 2024 providing further liquidity cushion.

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

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Construction materials	Other construction materials	Other construction materials

Promoted by Dr G Vivekanand, VIL 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 manufacturing ACS, non-asbestos boards and panels, synthetic fibre yarns and solar roofing products. VIL's business 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 ACS in India.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (A)
Total operating income	1,656.05	1,526.69	457.66
PBILDT	140.77	87.88	39.37
PAT	53.59	0.86	9.96
Overall gearing (times)	0.50	0.71	-
Interest coverage (times)	6.31	2.40	3.55

A: Audited, 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

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
Fixed deposit	-	-	-	2025#	25.00	CARE A+; Negative
Fund-based - LT-Cash credit	-	-	-	-	200.00	CARE A+; Negative
Fund-based - LT-Term loan	-	-	-	31/03/2028	260.92	CARE A+; Negative
Non-fund-based - ST-Bank guarantee	-	-	-	-	10.00	CARE A1+
Non-fund-based - ST-Credit exposure limit	-	-	-	-	8.04	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	30.00	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 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-Cash credit	LT	200.00	CARE A+; Negative	-	1)CARE A+; Stable (23-Nov-23)	1)CARE AA-; Stable (18-Oct-22)	1)CARE AA-; Stable (08-Mar-22) 2)CARE AA-; Stable (14-Sep-21)
2	Non-fund-based - ST-Bank guarantee	ST	10.00	CARE A1+	-	1)CARE A1+ (23-Nov-23)	1)CARE A1+ (18-Oct-22)	1)CARE A1+ (08-Mar-22)

								2)CARE A1+ (14-Sep-21)
3	Non-fund-based - ST-Letter of credit	ST	30.00	CARE A1+	-	1)CARE A1+ (23-Nov-23)	1)CARE A1+ (18-Oct-22)	1)CARE A1+ (08-Mar-22) 2)CARE A1+ (14-Sep-21)
4	Fund-based - LT-Term loan	LT	260.92	CARE A+; Negative	-	1)CARE A+; Stable (23-Nov-23)	1)CARE AA-; Stable (18-Oct-22)	1)CARE AA-; Stable (08-Mar-22) 2)CARE AA-; Stable (14-Sep-21)
5	Fixed deposit	LT	25.00	CARE A+; Negative	-	1)CARE A+; Stable (23-Nov-23)	1)CARE AA-; Stable (18-Oct-22)	1)CARE AA- (FD); Stable (08-Mar-22) 2)CARE AA- (FD); Stable (14-Sep-21)
6	Non-fund-based - ST-Standby Line of Credit	ST	143.00	CARE A1+	-	1)CARE A1+ (23-Nov-23)	1)CARE A1+ (18-Oct-22)	1)CARE A1+ (08-Mar-22) 2)CARE A1+ (14-Sep-21)
7	Non-fund-based - ST-Credit exposure limit	ST	8.04	CARE A1+				

LT: Long term; ST: 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	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-Credit exposure limit	Simple
6	Non-fund-based - ST-Letter of credit	Simple
7	Non-fund-based - ST-Standby line of credit	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	Visaka Green Private Limited	Full	Subsidiary
2	Atum Life Private Limited	Full	Subsidiary

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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