Vinati Organics Limited (Revised)

July 6, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term/ Short-term Bank Facilities	35.00	**CARE AA-; Stable/ CARE A1+ [Double A Minus; Outlook: Stable/ A One Plus]**	Reaffirmed
Short-term Bank Facilities	31.65	**CARE A1+ [A One Plus]**	Reaffirmed
Total	**66.65 (Rupees Sixty Six Crore and Sixty Five Lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Vinati Organics Limited (VOL) continues to derive strength from the long track record and vast experience of the promoters in the speciality organic chemical industry, having strong foothold globally for its key products- Iso-Butyl Benzene (IBB) and 2-Acrylamido 2-Methylpropane Sulfonic Acid (ATBS) coupled with long term relationship with well-established and reputed clientele base across various geographies.

Furthermore, the rating derives strength from healthy financial risk profile characterised by consistent growth in revenues, healthy operating margins albeit marginal decline in FY18 (refers to the period April 1 to March 31) leading to strong cash accruals, favourable capital structure along with comfortable liquidity and debt coverage indicators in FY18.

The rating strengths, however, continue to be tempered by VOL's product concentration risk owing to considerable dependence on two products, susceptibility of operating margin to raw material price/foreign exchange fluctuations and significant planned capital expenditure towards launch of new products.

Going forward, VOL's ability to scale up its operations while sustaining its healthy profitability margins through product diversification on the back of new product launches as envisaged and maintain its favorable capital structure together with successful implementation of capex as per the planned funding profile are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the speciality chemical business

VOL has a well-established track record of operating for more than two and a half decades in the chemical business. VOL is promoted by Mr.Vinod Saraf a first generation entrepreneur who has over two decades of experience in chemical industry. The day-to-day operations of the company are managed by a team of qualified and experienced personnel headed by Mr.Vinod Saraf (MD). Besides, his daughter, Ms.Vinati Saraf (CEO) has also been actively involved in managing the business.

Leading position globally in production of IBB and ATBS; both in terms of production capacity and market share

VOL continues to be one of the leading global players in manufacturing of IBB and ATBS. For IBB, VOL has a strong foothold with more than 50% market share in the global market with production capacity of 16,000 MTPA. Besides, with total manufacturing capacity of 26,000 MTPA, VOL is also the leading producer of ATBS in the world. The company's market position in the segment is further expected to improve with the exit of Lubrizol from AMPS (ATBS) manufacturing business.

Long established relationship with reputed clientele base across geographies

The company sells its products to some of world largest chemical companies. Through its well-integrated product portfolio, efficient manufacturing process and high quality products, VOL has been able to get repeat orders from its existing customers. This has also helped the company to consistently grow its scale of operations over the years.

Total operating income continues to grow on back of robust ATBS demand; albeit, decline in the profit margins

VOL's total operating income increased by 16.75% on y-o-y basis to Rs.759.27 crore in FY18 from Rs.650.33 crore reported during FY17, largely on account of strong growth in ATBS sales volume. Rise in the prices of VOL's key inputs, which were partially passed on to its customers also contributed to the company's revenue growth. However, VOL's IBB segment sales were stagnant in terms of volume growth owing to lower off-take from one of its key customers, whose plant was non-operational for about two quarters, causing loss of sales for the company for the mentioned period. However, the shutdown was temporary and the plant has now become operational. Moreover, excluding the three major products of the company, namely IB, IBB, and ATBS, the company's revenue from other products declined from Rs.169.47 crore to Rs.120.62 crore in FY18, mainly on account of decline in sales of customized products.

However, despite growth in the sales, VOL's PBILDT remained stagnant at Rs.227.71 crore (P.Y:Rs.228.15 crore), partially owing to lower proportion of sales of higher margin customised products as well as lag effect of passing on rise in input prices. Furthermore, increase in employee cost and other manufacturing expenses relating to new product lines, which were operating at lower than optimum capacity, also added to the decline in the company's profit margins.

Favourable capital structure along with comfortable liquidity and debt coverage indicators

The capital structure of the company continues to remain healthy with gearing levels at 0.03x as on March 31, 2018 owing to healthy profitability leading to higher accretion of profit to networth. During FY18, the company generated GCA of Rs.178.55 crore. As on March 31, 2018, the company had cash and cash equivalents (including liquid investments) of around Rs.131.9 crore. Moreover, the company's fund based utilization also remains low at around 20% which provides additional liquidity comfort.

Key Rating Weaknesses

Product concentration risk

During FY18, the company derived around 73.65% of its total revenues from ATBS and IBB as compared to 65.79% in FY17. The increased concentration of the revenue was mainly due to robust growth in ATBS sales. Nonetheless, diverse application of ATBS partially mitigates the product concentration risk. Moreover, the company is in the process of increasing its product portfolio by addition of two major projects Butyl Phenol and PAP. Successful completion of the BP and PAP project would help the company to reduce its reliance on the two major products to some extent.

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 the manufacturing process of IBB and ATBS. Majority of the company's raw materials being the crude oil derivatives, their prices change in lines with crude oil prices and hence volatility in the crude oil price effects the company's input cost. Nonetheless, the company is able to pass on the increased cost of raw materials to its customers with a time lag of 3 months in case of ATBS and 1 month for all other products including IBB, Customized products etc. Hence, although in the long term the company is able to pass-on any increase in input cost to its customers, the short term volatility in the input prices may affect the company's margins to the extent of time lag between changes in input cost and revision in VOL's selling prices.

Besides, being the net exporter the company is also exposed to foreign exchange fluctuation risk. The company has natural hedge up-to the extent of imports and locally procured inputs having import parity pricing. However, as the company does not hedge its foreign currency exposure, some portion of the company's sales remains exposed to any adverse movement in the foreign exchange fluctuation. As on March 31, 2018, the company had net USD exposure of Rs.102.26 crore (P.Y:Rs.78.73 crore) and net Euro exposure of Rs.3.55 crore (P.Y: Rs.1.81 crore).

Geographical Distribution of sales	**FY16**		**FY17**		**FY18**	
	in Rs. Cr	**% of Total**	**in Rs. Cr**	**% of Total**	**in Rs. Cr**	**% of Total**
Domestic	188.55	32.61	154.41	23.84	207	27.20
Exports	389.67	67.39	493.25	76.16	554	72.80
Total	**578.21**	**100**	**647.66**	**100**	**761**	**100.00**

Project Risk

During FY18, VOL started its planned capex towards Butyl Phenol (BP) project. However, in order to speed-up the execution of the project VOL awarded the project on turnkey basis as against previously planned in-house project implementation of the same. Execution of project on EPC basis coupled with some technological changes in the same resulted into increase in project cost from earlier planned Rs.170 crore to Rs.240 crore. The company expects project to start the commercial production by the end of June 2019. As on May 31, 2018, the company had already incurred around Rs.44 crore towards the BP project. Besides, in order to cater to increased ATBS demand, the company started capex towards debottlenecking of the ATBS plant which would add further 4,000 MTPA to its production capacity. VOL is also increasing its IBB manufacturing capacity from existing 16,000 MTPA to 25,000 MTPA. The expansion in capacities in ATBS and IBB is expected to commence from Sep 2018.

The PAP project continues to be on pilot stage and the company will enter the PAP project only when it succeeds in the same. However, if the company succeeds in the pilot run it is planning to add 30,000 MTPA to its capacity which would require additional capex of around Rs.550 crore.

The company's ongoing capex towards BP, ATBS and IBB (excluding PAP project) is expected to have combined outlay of Rs.297 crore, with around Rs.44 crore spent till date and remaining Rs.253 crore to be incurred in FY19. At around 40% of the tangible net-worth, the size of capex is significant and hence exposes the company to project implementation risk.

Going forward, successful completion of the capex and achievement of desired economies of scale will remain the key rating monitorable.

Analytical approach: Standalone Approach has been considered for analytical purposes.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

[Criteria for Short Term Instruments]

[Rating Methodology-Manufacturing Companies]

[Financial ratios – Non-Financial Sector]

About the Company

Incorporated in 1989, VOL is one of India's leading manufacturers and exporters of specialty organic intermediaries, monomers, and polymers. VOL is one of the world's leading manufacturer of isobutyl benzene (IBB) and 2-Acrylamido 2-Methylpropane Sulfonic Acid (ATBS) with existing manufacturing capacity of 16,000 TPA and 26,000 TPA respectively. IBB finds application in manufacturing of Ibuprofen (a non-steroidal anti-inflammatory drug) while ATBS is a specialty monomer which finds multiple applications in operations, such as industrial water treatment, oil field recovery, construction chemicals, hydrogels for medical applications, personal care products, emulsion polymers, detergents, textile print pastes, adhesives and sealants, thickeners and paper coatings. In an effort towards backward integration, VOL manufactures Isobutylene (IB), one of the key components used in manufacturing ATBS. Besides, VOL also manufactures 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.

VOL is an export oriented company with around 73% of its overall revenues in FY18 (P.Y: ~74%) is derived from export markets mainly from USA and Europe and remaining 26% is from within India.

Brief Financials (Rs. crore)	FY17 (A) Ind-AS	FY18(A) Ind-AS
Total operating income	650.33	759.27
PBILDT	228.15	227.71
PAT	140.28	143.88
Overall gearing (times)	0.00	0.03
Interest coverage (times)	82.87	104.71

**A: Audited*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	31.65	CARE A1+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	30.00	CARE AA-; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	5.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (10-Jul-17)	1)CARE AA- (11-Jul-16)	1)CARE A+ (09-Jul-15)
2.	Non-fund-based - ST-BG/LC	ST	31.65	CARE A1+	-	1)CARE A1+ (10-Jul-17)	1)CARE A1+ (11-Jul-16)	1)CARE A1 (09-Jul-15)
3.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	30.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (10-Jul-17)	1)CARE AA- / CARE A1+ (11-Jul-16)	1)CARE A1 (09-Jul-15)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	5.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (10-Jul-17)	1)CARE AA- / CARE A1+ (11-Jul-16)	1)CARE A+ / CARE A1 (09-Jul-15)

CARE Ratings
Professional Risk Opinion

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