Vinati Organics Limited

July 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Short-term Bank Facilities	31.65	**CARE A1+ [A One Plus]**	Reaffirmed
Long-term/ Short-term Bank Facilities	30.00	**CARE AA-; Stable/ CARE A1+ [Double A Minus; Outlook: Stable/ A One Plus]**	Reaffirmed
Long-term/ Short-term Bank Facilities	5.00	**CARE AA-; Stable/ CARE A1+ [Double A Minus; Outlook: Stable/ A One Plus]**	Reaffirmed
Long-term Bank Facilities (Term Loan)*	0.00 (reduced from 17.56)	**-**	Withdrawn
Total	**66.65 (Rupees Sixty Six Crore and Sixty Five Lakhs only)**		

Details of instruments/facilities in Annexure-1
**The rating for the term loan stands withdrawn as the company has paid off the loan and there are no outstanding dues for the same.*

Detailed Rationale & Key Rating Drivers
The reaffirmation in the ratings assigned to the bank facilities of Vinati Organics Limited (VOL) continues to derive strength from its healthy financial risk profile characterized by growth in revenues and healthy profitability margins leading to strong gross cash accruals along with favourable capital structure and comfortable liquidity/debt coverage indicators in FY17 (refers to the period April 01 to March 31). Furthermore, the ratings continue to derive strength from VOL's long track record and extensive experience of the promoters in the specialty organic chemicals industry, its dominant position globally in its key product segments Iso-Butyl Benzene (IBB) and 2-Acrylamido 2-Methylpropane Sulfonic Acid (ATBS) and presence of long term supply contracts with its reputed clientele base.
The ratings strengths, however, are constrained by the VOL's modest size of operations, product concentration risk owing to higher dependence on its key flagship products, volatility in the prices of crude-based raw materials & 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 and maintain its favourable 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
Long track record coupled with vast experience of the promoters in the chemical industry
VOL has a well-established track record of operating for more than two and a half decades in the chemical business. The company is promoted by Mr Vinod Saraf, a first generation entrepreneur who has over two and half decades of extensive experience in the 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. Besides, his daughter, Ms Vinati Saraf has also been actively involved in managing the business.

Growth in revenues and healthy profitability margins leading to strong cash accruals
During FY17, VOL's total operating income increased by 10.96% on a y-o-y. Furthermore, the company's operating margins continued to expand from 29.77% in FY16 to 33.49% in FY17 owing to lower raw material costs i.e. crude oil as well as higher realisations from value added customized products. PAT margins continued to remain healthy at 20.76% in FY17. As a result, the company's gross cash accruals remained strong on a year on year basis.
Favourable capital structure along with comfortable liquidity and debt coverage indicators
The company's total debt stood at Rs.2.32 crore (P.Y.Rs.42.07 crore) as on March 31, 2017. Healthy gross cash accruals and reduction in debt led to improvement in debt coverage indicators. Overall gearing continues to be favourable, improving further from 0.08x as on March 31, 2016 to Nil as on March 31, 2017. The liquidity also remained comfortable as unencumbered cash and bank balance (including liquid investments) of Rs.63.37 crore as on March 31, 2017 as compared to Rs.72.62 crore maintained by the company as on March 31, 2016.

Global leadership in production as well as market share of IBB and ATBS
VOL is one of the leading global players in manufacturing of IBB and ATBS. For IBB, VOL has a strong market position with about 65% market share in the global market. VOL is the only Indian manufacturer and the largest producer of ATBS in the world.
Long term relationship with well-established clientele base providing near term revenue visibility
Well-integrated product portfolio has helped VOL to achieve high operational efficiencies and produce high quality products. This is evident from the fact that the company has been able to maintain long-term relationship with its reputed clientele base, which includes BASF Corporation, Mitsubishi Corporation, Hubei (China), SNF, Dow Chemicals and Nalco Company among others.

Key Rating Weaknesses
Relatively moderate scale of operations
With total income from operations at Rs.671.13 crore in FY17 VOL is considered to be a relatively moderate sized entity. Also, the company's networth as on March 31, 2017 stood at Rs.675.58 crore.
Product concentrations risk owing to higher dependence on its key products
Despite having a well-integrated product portfolio, the company continues to derive majority of its revenues (about 66% in FY17) from its key products i.e. IBB and ATBS. However, the company is working towards diversifying its product portfolio. VOL introduced two new products in FY17 viz. customized products and TB-Amine and has also commissioned its P-Tertiary Butyl Benzoic Acid (PTBBA) plant during Q4FY17. Furthermore, the company has also planned capex towards manufacturing plant of Butyl Phenols and Para Amino Phenol (PAP) for the period FY18 to FY21 which is expected to fuel its growth plans and mitigate the product concentration risk to an extent.
Exposure to raw material volatility and foreign currency fluctuations
Crude derivatives such as toluene, propylene, acrylonitrile and methyl tertiary butyl ether are the key raw materials required in the manufacturing process of IBB and ATBS. 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 and Customized products. Thus, the operating margins are exposed to fluctuations in input prices to such extent.
Being the net exporter, VOL is exposed to currency fluctuation risk. The company had exports of around 76% (Rs.493.25 crore) of the total sales in FY17. Against these, its raw material import was only about 25% of total materials procured with total cost of about Rs.81 crore. Import of raw materials and use of foreign currency borrowings to funds its working capital act as natural hedge for the company to an extent. Thus, a large portion of foreign currency earnings still remains un-hedged and any adverse movement in currency may impact the company's margins.
Project Risk
VOL recently concluded its planned capex of about Rs.200 crore in FY17, which was financed through its internal accruals. The company has further planned to undertake total capex of about Rs.700 crore for the period FY18 to FY21, and the same would be funded through mix of debt and internal accruals. The planned capex includes manufacturing plant for Butyl Phenol at its Lote facility and manufacturing plant for Para Amino Phenol (PAP) at Mahad (Maharashtra). The size of the project i.e. around Rs.700 crore is being more than its networth (i.e. Rs.675.58 crore) as on March 31, 2017, indicating higher project implementation risk.
Thus, with the proposed capex plans in place, going forward the company's ability to generate the envisaged cash flows necessary to execute the capex as per the planned funding profile, without any escalation in project cost or increased reliance on debt will be the key rating sensitivity.
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
Policy on Withdrawal of ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
About the Company
Incorporated in 1989, Vinati Organics Limited (VOL), promoted by Mr Vinod Saraf, a first generation entrepreneur, is one of India's leading manufacturers and exporters of specialty organic intermediaries, monomers, and polymers. VOL is the world's leading manufacturer of isobutyl benzene (IBB) and 2-Acrylamido 2-Methylpropane Sulfonic Acid (ATBS). 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. The company is currently India's largest manufacturer of IB. The product portfolio of the company also includes high purity Methyl Tertiary Butyl Ether (HP-MTBE), Normal Butyl benzene (NBB), Hexenes, N-Tertiary Butyl Acrylamide (TBA) and other industrial monomers.

Moreover, the company recently started manufacturing Tertiary Butyl Amine (TB-Amine) and couple of Customized products and also commissioned its P-Tertiary Butyl Benzoic Acid (PTBBA) plant in Q4FY17.

VOL is an export oriented company and derives majority of its revenues (i e around 74% in FY17) from exports markets mainly from USA and Europe and the remaining 26% is derived from within India.

As per FY17, VOL posted a PAT of Rs.139.30 crore (FY16 – Rs.131.75 crore) on a total operating income of Rs.671.13 crore (FY16 – Rs.604.82 crore).

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
Term Loan-Long Term	-	-	-	0.00	Withdrawn
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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	-	-	-	1)CARE AA- (11-Jul-16)	1)CARE A+ (09-Jul-15)	1)CARE A (12-Aug-14)
2.	Non-fund-based - ST-BG/LC	ST	31.65	CARE A1+	-	1)CARE A1+ (11-Jul-16)	1)CARE A1 (09-Jul-15)	1)CARE A1 (12-Aug-14)
3.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	30.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA- / CARE A1+ (11-Jul-16)	1)CARE A1 (09-Jul-15)	1)CARE A1 (12-Aug-14)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	5.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA- / CARE A1+ (11-Jul-16)	1)CARE A+ / CARE A1 (09-Jul-15)	1)CARE A / CARE A1 (12-Aug-14)

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