

Vinati Organics Limited^(Revised)
 August 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term/ Short-term Bank Facilities	35.00	CARE AA; Stable / CARE A1+ [Double A; Outlook: Stable/ A One Plus]	Revised from CARE AA-; Stable / CARE A1+[Double A minus; Outlook: Stable/ A One Plus]
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 revision in the ratings of Vinati Organics Limited (VOL) factors in the improved market position in 2- Acrylamido 2 Methylpropane Sulfonic Acid (ATBS) segment following the exit of a key global competitor. Consequently, VOL reported substantial growth in revenue from this segment in FY19 vis-à-vis FY18. The ratings also takes cognizance of significant improvement in operating profit margin in FY19, as VOL was able to garner better sales realization coupled with improved economies of scale.

CARE believes, the competitive advantage gained in ATBS segment is expected to sustain in medium term as the manufacturing processes are not easy to replicate and same acts as entry barrier for new entrants. However, the operating profit margins are expected to moderate and remain in the range of 30-35% going forward on account of introduction of Butyle Phenols into the sales mix.

The ratings continues to derive strength from the long-track record and experience of the promoters in the speciality organic chemical industry. Second generation of promoter group are also inducted in the business mitigating the succession issues. VOL continues to benefit from long term relationship with established and reputed clientele across various geographies. Backward integrated manufacturing process with zero discharge and cost efficient operations as the residuals generated during the manufacturing process are also converted into products and sold in the market. Furthermore, the rating derives strength from healthy cash flows from operations, favourable capital structure along with comfortable liquidity and debt coverage indicators.

The ratings continue to be tempered by the concentration of its total operating income from limited key products, susceptibility of VOL's 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 is promoted by Mr. Vinod Saraf, first generation entrepreneur who has over two decades of 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.

Prior to incorporation of VOL, Mr. Saraf was associated with companies such as Bhilwara Group, Modern Syntex (I) Ltd., Grasim Industries Ltd. and Mangalore Refinery and Petrochemicals Ltd. Under his leadership, VOL has grown both in terms of capacities and in terms of basket of products manufactured by it and has become world's largest manufacturers and sellers of Isobutyl Benzene (IBB) and ATBS with a significant market share in both the product categories.

Significant growth in ATBS sales in FY19 on account of exit of a key competitor in the global market

VOL witnessed revenue growth of ~52% in FY19 on a y-o-y basis which was primarily driven by increase in sale of ATBS. The exit of Lubrizol Corporation, a key global player and VOL's biggest competitor was the main reason for the high growth in revenue from the ATBS segment. This also resulted in VOL's global market share in this category increasing from 45% to 65%¹ in FY19. VOL reported expansion in its operating profit margin on account of improved market position and better economies of scale achieved during the year (FY19) with higher sales volume.

¹ Source: Annual report of VOL for FY19

In the IBB segment, VOL enjoys a sizeable market share of ~65% ² in the global market. Volume growth in this segment was marginal on account of temporary shutdown in the manufacturing facility of one of its key clients.

Backward integrated manufacturing of ATBS; highly cost efficient and zero discharge manufacturing facilities

VOL is the only backward integrated manufacturer of ATBS with its own Isobutylene (IB) manufacturing unit which makes its operations more cost efficient. Further, to improve the recovery rate from its inputs and also to manufacture in a clean and green manner with zero discharge, VOL uses the residuals generated during the manufacturing process to manufacture a new product and generates revenue from the same. 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 in domestic and export markets

VOL has been able to maintain long-term relationship with its clients over the years with its client list including reputed companies such as BASF Corporation, Mitsubishi Corporation, Hubei (China), SNF, Dow Chemicals and Nalco Holding Company (an Ecolab group company) among others. VOL enters into long term supply contracts with its customers, for its two primary products IBB and ATBS. Revenue from top 10 clients accounted for ~43% of total operating income in FY19 which has reduced from 54% in FY18 thus, reducing its dependence on the top 10 clients.

Comfortable gearing and coverage indicators on the back of absence of long term debt, low utilization of working capital limits and healthy cash flows from operations

In order to increase its scale of operations and diversify its revenue base VOL has been consistently adding capacities of its existing product lines as well as introducing new products. Healthy cash flows from operations have helped VOL fund its capex entirely from internal accruals thus, resulting in a healthy capital structure. During FY19, VOL reported cash flow from operations of Rs.326.57 crore and as on March 31, 2019 it had cash and cash equivalents (including liquid investments) of around Rs.98.34 crore. Moreover, VOL's fund based utilization also remains low at around 4% thus, providing additional liquidity.

Key Rating weaknesses

Product concentrations risk owing to higher dependence on two of its key products although, the same is expected to reduce with the Butyl Phenol plant becoming operational

Despite having a well-integrated product portfolio, VOL continues to derive majority of its revenues from its key products i.e. IBB and ATBS. During FY19, VOL derived around 74% of its total revenues from these two products put together as compared to 71% in FY18. The increased concentration of the revenue was mainly due to robust growth in ATBS sales. Nonetheless, diverse application of ATBS reduces the product concentration risk up-to a certain extent. Moreover, the company is in the process of adding new products Butyl Phenol (BP). Successful completion of the BP project would help the company to reduce its reliance on the two major products up-to some extent.

Exposure to raw material volatility and foreign currency fluctuations mitigated to an extent by cost plus mark-up formulae of pricing followed by VOL

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. The company procures toluene from Reliance Industries Limited (RIL) (CARE AAA; Stable/ CARE A1+ as on March 5, 2019) and local traders whereas propylene is sourced from local refineries like Bharat Petroleum Corporation Limited (BPCL) (rated CARE AAA; Stable/ CARE A1+ as on February 27, 2019). VOL enters into annual contract with RIL for its requirement; by virtue of it the company gets assured supply of material. VOL follows a cost plus margin 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 the company 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 its foreign currency exposure, it remains exposed to any adverse movement in the foreign exchange. As on March 31, 2019, the company had net USD exposure of Rs.153.75 crore (P.Y:Rs.102.26 crore) and net Euro exposure of Rs.11.16 crore (P.Y: Rs.3.55 crore).

Advanced stage of completion of the ongoing capex thus, reducing risk associated with time and cost overrun; markets risks remains

VOL had planned capex of Rs. 110 crore towards expansion of its ATBS facility from 26,000 MTPA to 40,000 MTPA, as there has been a surge in demand for VOL's product post exit of Lubrizol. The new capacities are expected to commence production by the end of Q2FY20.

² Source: Annual report of VOL for FY19

VOL is also expanding its product portfolio into manufacturing of Butyl Phenol and is setting up a 35,000 MTPA capacity for the same for an estimated cost of Rs. 240 crore. This project is also underway and commercial production is expected to commence by the end of Q2FY20.

Out of the total estimated capex of Rs. 350 crore, Rs. 50 crore was estimated as additional working capital requirement for the new facilities. Thus, project outlay is only Rs. 300 crore. As on August 5, 2019, Rs.69 crore was incurred towards the ATBS facility expansion and Rs.190 crore was incurred towards the BP project. As substantial project cost (~86% of the estimated cost) has already been incurred and the projects are nearing completion, risks associated with cost and time overrun are reduced however, market risks remain.

Liquidity Profile

VOL has strong liquidity indicators, marked by very low utilization of its working capital limits. Its liquidity position is further supported by healthy cash accruals, absence of long term debt repayments and a healthy cash and investments of Rs.98.34 crore as on March 31, 2019.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short-term Instruments](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[Rating Methodology for manufacturing companies](#)

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 25,000 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 manufactures Tertiary Butyl Amine (TB-Amine), Tertiary Butyl Benzoic Acid (PTBBA) and a couple of customized products.

VOL is an export oriented company with around 70-75% of its overall revenues derived from export markets.

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	759.27	1156.85
PBILDT	227.71	453.93
PAT	143.88	282.49
Overall gearing (times)	0.02	0.01
Interest coverage (times)	104.71	208.40

*A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information:

Mr. Adesh Kumar Gupta, Independent Director on the board of CARE Ratings Limited (CARE), is also Independent Director on board of Vinati Organics Limited. Mr. Gupta is not a part of CARE's rating operations and does not participate in the rating process. The rating notes are also not sent to him.

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (10-Jul-17)	1)CARE AA- (11-Jul-16)
2.	Non-fund-based - ST-BG/LC	ST	31.65	CARE A1+	-	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (10-Jul-17)	1)CARE A1+ (11-Jul-16)
3.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	30.00	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Jul-18)	1)CARE AA-; Stable / CARE A1+ (10-Jul-17)	1)CARE AA- / CARE A1+ (11-Jul-16)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	5.00	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Jul-18)	1)CARE AA-; Stable / CARE A1+ (10-Jul-17)	1)CARE AA- / CARE A1+ (11-Jul-16)

Annexure 3 Detailed explanation of covenants of the rated instruments/facilities: NA

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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