Vinati Organics Limited

August 31, 2020

Ratings

Bank Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long-term/ Short-term Bank Facilities	85.00 [Enhanced from 35.00]	**CARE AA; Stable / CARE A1+ [Double A; Outlook: Stable/ A One Plus]**	Reaffirmed
Short-term Bank Facilities	31.65	**CARE A1+ [A One Plus]**	Reaffirmed
Total	**116.65 (Rupees One hundred and sixteen Crore and Sixty Five Lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the enhanced bank facilities of Vinati Organics Limited (VOL) factor in its market leadership in its two key products viz: in 2- Acrylamido 2 Methylpropane Sulfonic Acid (ATBS) and Isobutyl Benzene (IBB) in the global market, which has enabled it to report consistently high operating margins in the past. CARE believes, the competitive advantage of VOL in both its product segments 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.

The ratings also factor in the marginal decline in sales reported by VOL in FY20 on the back of muted demand for both IBB and ATBS. While de-growth in IBB was on the back of lower utilization of capacities of its key customers, demand slowdown in ATBS was witnessed on the back of weakness in the oil and gas sector which contributes to around 20%-25% of ATBS sales. CARE however, notes that future revenue growth of VOL shall be supported by sales generated from the new product viz. Butyl Phenol. VOL's backward integrated operations into manufacture of Isobutylene (IB), a key raw material used in the manufacture of Butyl Phenol gives it a competitive advantage. Nevertheless, as operating margins in Butyl Phenol are not as high as IBB and ATBS the addition of Butyl Phenol in the sales mix is likely to moderate the operating profit margins going forward, keeping them in the range of 35-37%.

The 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 established and reputed clientele across various geographies. Backward integrated manufacturing process with zero discharge as the residuals generated during the manufacturing process are also converted into products and sold in the market make VOL's operations cost efficient and acts as an entry barrier for new entrants. Furthermore, the rating derives strength from healthy cash flows from operations, favourable capital structure along with strong liquidity and debt coverage indicators.

The ratings continue to be tempered by the concentration of its total operating income from limited key products and susceptibility of VOL's operating margin to raw material price/foreign exchange fluctuations.

Rating Sensitivities

Positive triggers:

- *Elevation in its Total Operating Income on back of improved and effective diversification in product profile along with sustenance of Operating Profit Margin at current levels.*
- *Return on capital employed above 30% on a sustained basis*

Negative triggers:

- *Any significant debt funded organic or inorganic expansion undertaken by the company which adversely impacts the debt protection metrics going forward*
- *Weakening of its PBILDT margins below 34% and RoCE below 24% on sustained basis*

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the specialty 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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

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, SNF, Dow Chemicals among others. VOL enters into long term supply contracts with its customers, for its two primary products IBB and ATBS. It is an export oriented company with ~70% - 74% of its revenues from exports. It supplies to around 40 countries across the world with majority exports to USA, Europe and China.

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 the company 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 FY20, VOL reported cash flow from operations of Rs.352.90 crore in FY20 (P.Y. Rs.326.57 crore) and it had cash and cash equivalents (including liquid investments) of Rs. 278.46 crore which was substantially higher than Rs. 98.34 crore in the previous year.

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 FY20, VOL derived around 74% of its total revenues from these two products put together. Nonetheless, with, the introduction of Butyl Phenol in the product mix from Q4FY20, CARE believes that the product concentration is expected to reduce going forward.
VOL successfully completed the capex towards setting up of 35,000 MTPA of Butyl Phenol plant in Q4FY20 and has started supplying to both domestic and export markets. Butyl phenol is manufactured by a combination of phenol and isobutylene (IB) and VOL's backward integration into manufacturing of IB provides it an added advantage. Going forward, CARE expects Butyl Phenol to be the primary growth for the company.

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 July 7, 2020) and local traders whereas propylene is sourced from local refineries like Bharat Petroleum Corporation Limited (BPCL) (rated CARE AAA; Under watch with developing implications/ CARE A1+ as on August 19, 2020). 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 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, 2020, the company had net USD exposure of Rs.87.90 crore (P.Y:Rs. 153.75 crore) and net Euro exposure of Rs.9.55 crore (P.Y: Rs. 11.16 crore).

Liquidity: Strong
Liquidity of VOL is marked by healthy cash accruals from operations against no long term debt repayment. Additionally, the presence of unencumbered cash and investments balance of Rs. 278.46 crore provides support to the company's liquidity position. Further, VOL has been regularly reporting healthy cash flow from operations and the same stood at Rs. 415.93 crore during FY20. With a negligible overall gearing, VOL has sufficient headroom to raise additional debt for its capex. The utilization of its fund based working capital limits remained less than 4% over the trailing twelve months ended July 2020. Accordingly, its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Its current ratio was also very strong at 7.14 times as on March 31, 2020. Also, the company has not availed any moratorium on its debt obligations, the option for which was available to it as per RBI's Covid-19 relief package.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation & Factoring Linkages in Ratings
CARE's policy on curing period

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)#
Total operating income	1,156.85	1,065.22	240.17
PBILDT	453.93	451.23	105.78
PAT	282.49	333.82	72.30
Overall gearing (times)	0.01	0.00	NA
Interest coverage (times)	208.40	221.62	NA

**A: Audited; # As published on the exchanges*
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	ISIN	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	-	-	-	-	85.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (10-Jul-17)
2.	Non-fund-based - ST-BG/LC	ST	31.65	CARE A1+	-	1)CARE A1+ (09-Aug-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (10-Jul-17)
3.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	85.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (09-Aug-19)	1)CARE AA-; Stable / CARE A1+ (06-Jul-18)	1)CARE AA-; Stable / CARE A1+ (10-Jul-17)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	1)CARE AA; Stable / CARE A1+ (09-Aug-19)	1)CARE AA-; Stable / CARE A1+ (06-Jul-18)	1)CARE AA-; Stable / CARE A1+ (10-Jul-17)

Annexure 3 Detailed explanation of covenants of the rated instruments/facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

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

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.*

Contact us

Media Contact
Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com
Analyst Contact 1
Mr. Kunal B Shah
Contact no.- 91-22-67543451
Email ID- kunalb.shah@careratings.com

Analyst Contact 2
Mr. Sudarshan Shreenivas
Contact no.- 91-22-67543566
Email ID- sudarshan.shreenivas@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. : 91-22-67543404
Email ID: saikat.roy@careratings.com

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**