Visaka Industries Limited

November 20, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	249.64	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Short term Bank Facilities	230.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**479.64 (Rs. Four Hundred Seventy Nine crore and Sixty Four lakh only)**		
Fixed Deposit programme	25.00 (Rs. Twenty Five crore only)	CARE AA- (FD); Stable [Double A Minus (Fixed Deposit); Outlook: Stable]	Reaffirmed

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and fixed deposit programme of Visaka Industries Limited (VIL) continue to draw strength from the experienced promoters and management team, long and established track record of operations of the company with a strong brand image, established market position of the company as the second largest player in the asbestos fibre cement sheet industry in India with widespread distribution network, well-established accounting and regulatory compliance mechanism in place, and robust financial & liquidity position. The ratings factors in completion of major capex with commencement of operations of the new Non-asbestos boards unit at Jhajhar during March 2019, and improvement in revenue during FY19 (refers to the period April 1 to March 31) albeit reduced profitability due to increased overhead costs. The ratings also take into moderation witnessed in revenue and operating profit during Q2FY20 with subdued performance of Asbestos Cement Sheet (ACS) segment during the quarter. Nevertheless, the financial and liquidity profile continued to remain strong during H1FY20. The ratings are tempered by risk associated with volatility in raw material prices and foreign exchange fluctuations, high inventory holding days and regulatory & environmental issues surrounding asbestos mining; even though the company's operations are within approved levels. The key rating sensitivities are as follows –

Rating Sensitivities

Positive Factors

- Continuous diversification of revenue stream and growth in scale of operation
- Improvement in profit level and margin with PBILDT margin improving to 15% on sustained basis

Negative Factors

- Increased debt level resulting in weakening of overall gearing ratio to 1.20x or above
- Any adverse impact on the business and consequently liquidity profile due to changes in regulation w.r.t usage of asbestos fibre.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record: The promoters of VIL have been involved in the building products business for more than three decades. The company commenced operations in 1981 and over the years, it has developed an established brand name in the Asbestos Cement Sheet (ACS) segment in India. The company has been promoted by Dr. G Vivekanand (Vice Chairman), and the business operations of VIL have benefited from his long established track record in diversified businesses and the vast industry network developed over the years. He is well supported by a team of qualified and experienced management team.

Diversified revenue stream with growing contribution from non ACS segment: VIL has a diversified product portfolio with the company having presence in building products through Asbestos Cement Sheets (ACS) and Non-asbestos boards & panels (V-Next products). Additionally, VIL has presence in textiles business with the company manufacturing synthetic yarns which includes melange yarns, high twist yarn and specialty yarns with different blend styles. While ACS segment continues to contribute approx. 65% of revenue; the company has been endeavoring to increase the share of other segments (35% in FY19 vis-à-vis 32% in FY17), over the last few years, in order to lower its dependence on the ACS business. The company is well

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

recognized in the Indian ACS market and has second highest market share in the segment (approx. 18%). Given the growing rural & urban demand for ACS and its cost competitiveness, the revenue contribution from ACS is expected to remain high.

Widespread marketing distribution network: VIL has a wide distribution network of about 7000 dealers with 14 marketing offices and depots in about 36 cities in India. The company markets its products pan India, except north, and markets directly to dealers/retailers rather than routing through distributors to gain better understanding of the market place. The dealer contribution to sales is about 85% with balance 15% comprising institutional sales.

Strategic expansion over the years and completion of planned capex: VIL has been strategically expanding its capacity of various segments with expansion undertaken over the last three years one at a time and funded through internal accruals. Post completion of textile division capacity in Nagpur; the company undertook setting up fibre board unit of 50,000 MTPA at Jhajjar, Haryana which was brought on stream during March 2019, as against the initially planned commissioning during December 2018. The new unit increased the production capacity of fibre boards to 170,000 MTPA with full benefit expected in the current fiscal of FY20. Additionally, the plant for ATUM (integrated solar panel with a cement base) at Miryalguda, Telangana also commenced commercial production during November 2018 with nominal revenue of Rs.2.0 crore from the unit registered in FY19. The company has now envisaged additional capex of Rs.100.0 crore (proposed to be financed entirely through internal accruals) to set up Fibre board unit at Coimbatore which is at nascent stage and any amount yet to be incurred on the capex.

Satisfactory financial performance during FY19 albeit reduced profitability: The size and scale of company's operation has been increasing over the years. The company registered y-o-y growth of 11.4% in total operating income during FY19 (to Rs.1140.07 crore). This was at the back of improvement in all three major business segments viz. ACS, non-asbestos boards & panels (V-Next) and textiles during the year. The textile segment reported superior performance with revenue growth of about 30% in the segment which supported moderate growth of 5-7% witnessed in other segments.
The PBILDT level and margin, although remained satisfactory, witnessed reduction by 3.7% and 202 bps (to 12.95%) during the year. The decline was on account of increased overhead expenses due to delay in commencement of operations at new Jhajjar plant in addition to increased advertisement expenses pertaining to promotion of its new product segment, ATUM. Nevertheless, GCA remained at a comfortable level and witnessed a y-o-y growth of 4.9% during FY19.

Robust financial position: VIL has a comfortable capital structure with both debt-equity and overall gearing ratio below unity as on March 31, 2019 and September 30, 2019. The strong financial position is backed by adequate cash generation over the years and low debt repayment obligations. Further, the debt coverage metrics as represented by Interest coverage and TD/GCA also remained comfortable and stood at 7.42x and 2.73x respectively in FY19.

Stable industry outlook: ACS industry in India is an organized segment comprising few players, owing to strict regulatory norms which act as a deterrent to new entrants. Approximately 70% of India's population lives in houses with thatched roof/tiles which require continuous maintenance and replacement, resulting in increased demand for durable houses. The asbestos sheet industry is expected to benefit in the short term from the favourable GST taxation rate which is now at par with steel sheets at 18% (reduced from the earlier decided 28%). Given the affordability of ACS sheets over others, the same is a preferred source of building roofing product which augurs well for the industry.

Key Rating Weaknesses

Moderation in financial performance during Q2FY20: VIL reported a subdued performance during Q2FY20 with total operating income declining by about 9% in Q2FY20 from Q2FY19. The decline was on account of subdued market scenario and slowdown in rural market in addition to extended monsoons, which impacted the building products segment (primarily the ACS segment). The capacity utilization of building products segment reduced to about 75% during Q2FY20 vis-à-vis about 100% during Q2FY19 due to lower demand for the products. While the revenue dipped by less than 10%, PBILDT registered higher decline of about 40% due to volume dip in the ACS segment (~12%) and higher segmental contribution as well as contribution per tonne of the segment which pulled down the overall profit from operations. Nevertheless, the same was compensated to an extent through reduced tax rates and reassessment of deferred tax liabilities which resulted in decline in PAT by lower percentage of about 5.2% in Q2FY20 over Q2FY19. The financial and liquidity profile continued to remain comfortable during the quarter with low debt repayment obligation and sufficient cushion in working capital limit utilization.

Risk associated with volatility in raw material prices and foreign exchange fluctuations: The input prices of key raw materials i.e. Asbestos fibre, Wood Pulp & cement, is volatile in nature which subjects the profitability to moderate risk associated with adverse movement of prices. However, towards minimizing the pricing & supply risk for its major input (asbestos fibre which accounts for 35% of total raw material consumption cost), VIL enters into yearly agreements with major

suppliers and fixes the pricing and quantity details. For the fluctuation in other inputs, the company undertakes market scenario based decision to pass on the prices or absorb the same.
The business operation of VIL involves significant imports which expose the company to risk associated with volatility in foreign exchange rates. The same is, however, partially mitigated by the natural hedge on account of exports of board and yarn and an efficient treasury team monitoring the forex payout, movement in forex rates and hedging decision to be taken accordingly.

High inventory days: VIL operates in ACS industry marked by high inventory level and the company has to maintain stock of raw materials on account of lead time associated with imports and fluctuation in prices of raw material. Additionally, the company also operates in the synthetic yarn segment and has to stock high volume of inventory for smooth operations of the plant, resulting in relatively high inventory holding period for VIL (108 days in FY19).

Regulatory & environmental issues surrounding asbestos mining: The mining of asbestos and use of asbestos related products have been under regulatory and environmental scanner over the years. However, while mining of asbestos is banned in India, the use of asbestos is permitted in related products and the company operates within the approved levels. Nevertheless, an adverse policy decision in the segment is likely to have an impact on the company given high revenue contribution from ACS.

Liquidity Profile – Strong:
VIL enjoys a strong liquidity profile at the back of adequate gross cash accruals (Rs.105.36 crore during FY19) vis-à-vis low debt repayment obligations (Rs.20.51 crore in FY20) and moderate cash & bank balance of Rs.9.35 crore as on September 30, 2019. With overall gearing ratio of 0.49x as on September 30, 2019; VIL has sufficient headroom to raise additional debt, if required. Additionally, the working capital management of VIL has been efficient, with utilization of fund based limits being about 52% in the 12 months ended September 30, 2019.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for Manufacturing Companies
Financial Ratios – Non-Financial Sector

About the Company
Visaka Industries Ltd (VIL), promoted by Dr. G Vivekanand (Vice Chairman), was incorporated in 1981 in Hyderabad, Telangana and is engaged in the manufacturing of Asbestos Cement Sheets (ACS), Non-asbestos boards & panels and Synthetic fibre yarns. The company is the second largest player in manufacturing of ACS in India with an installed capacity of 802,000 Metric Tonnes Per Annum (MTPA) and is one of the largest cement asbestos products manufacturers in India. Additionally, VIL has manufacturing capacity of 170,000 MTPA for non-asbestos boards, 9,750 MTPA for non-asbestos panels and yarn manufacturing capacity of 2,752 spinning positions at its plant at Nagpur, Maharashtra. The company's building products (ACS and Non-asbestos boards & panels) are exported to around 15 countries while the textile yarns are exported to 17 countries globally.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1027.50	1144.07
PBILDT	153.81	148.12
PAT	66.56	67.41
Overall gearing (times)	0.64	0.58
Interest coverage (times)	8.64	7.42

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	130.00	CARE AA-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	-	10.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	20.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	March 2027	119.64	CARE AA-; Stable
Non-fund-based - ST-Stand by Line of Credit	-	-	-	-	180.00	CARE A1+
Fund-based - ST-Term loan	-	-	-	-	20.00	CARE A1+
Fixed Deposit	-	-	-	-	25.00	CARE AA- (FD); Stable

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.	Fund-based - LT-Cash Credit	LT	130.00	CARE AA-; Stable	-	1)CARE AA-; Stable (22-Nov-18)	1)CARE AA-; Stable (04-Dec-17)	1)CARE A+ (30-Nov-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A1+	-	1)CARE A1+ (22-Nov-18)	1)CARE A1+ (04-Dec-17)	1)CARE A1+ (30-Nov-16)
3.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A1+	-	1)CARE A1+ (22-Nov-18)	1)CARE A1+ (04-Dec-17)	1)CARE A1+ (30-Nov-16)
4.	Fund-based - LT-Term Loan	LT	119.64	CARE AA-; Stable	-	1)CARE AA-; Stable (22-Nov-18)	1)CARE AA-; Stable (04-Dec-17)	1)CARE A+ (30-Nov-16)
5.	Fixed Deposit	LT	25.00	CARE AA- (FD); Stable	-	1)CARE AA- (FD); Stable (22-Nov-18)	1)CARE AA- (FD); Stable (04-Dec-17)	1)CARE A+ (FD) (30-Nov-16)
6.	Non-fund-based - ST-Stand by Line of Credit	ST	180.00	CARE A1+	-	1)CARE A1+ (22-Nov-18)	1)CARE AA-; Stable / CARE A1+ (04-Dec-17)	1)CARE A+ / CARE A1+ (30-Nov-16)
7.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	-	-	-	1)Withdrawn (22-Nov-18)	1)CARE AA-; Stable / CARE A1+ (04-Dec-17)	1)CARE A+ / CARE A1+ (30-Nov-16)
8.	Fund-based - ST-Term loan	ST	20.00	CARE A1+	-	1)CARE A1+ (22-Nov-18)	1)CARE A1+ (04-Dec-17)	1)CARE A1+ (30-Nov-16)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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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