

## Visaka Industries Limited

November 22, 2018

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	249.64 (reduced from 257.36)	<b>CARE AA-; Stable [Double A Minus; Outlook: Stable]</b>	Reaffirmed
Short term Bank Facilities	130.00 (enhanced from 115.00)	<b>CARE A1+ (A One Plus)</b>	Reaffirmed
Short term Bank Facilities	100.00	<b>CARE A1+ [A One Plus]</b>	Reaffirmed; reclassified from LT/ST
Long term/ Short term Bank Facilities	-	-	Withdrawn
<b>Total Facilities</b>	<b>479.64 (Rs. Four Hundred Seventy Nine crore and Sixty Four lakh only)</b>		
Fixed Deposit programme	25.00 (Rs. Twenty Five crore only)	<b>CARE AA- (FD); Stable [Double A Minus (Fixed Deposit); Outlook: Stable]</b>	Reaffirmed

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and fixed deposit programme of Visaka Industries Limited (VIL) 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, well-established accounting and regulatory compliance mechanism in place and robust financial & liquidity position. The ratings also factors in satisfactory financial performance during FY18 (refers to the period April 1 to March 31) & H1FY19 with significant growth in profit level and cash accruals during the said period and substantial completion of the proposed capex. The ratings are, however, constrained by risks 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 ability of the company to continue to further diversify the revenue stream, expand the scale of operation while maintaining the profit margin & favourable capital structure and optimize the inventory levels are the key rating sensitivities.

CARE has withdrawn the rating assigned to Standby Line of Credit, as the facilities have been surrendered.

### 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 and the company also has presence in non ACS segments viz. non-asbestos boards & panels and tiles segments. Though the revenue contribution from these two segments remained at a similar level during FY18, VIL has been increasing the revenue contribution from these two segments over the last few years in order to lower its dependence on the ACS business. The company is well recognized in the Indian ACS market and has second highest market share in the segment. Given the growing rural & urban demand for ACS and its cost competitiveness, the revenue contribution from ACS is expected to remain high.

**Improvement in financial performance in FY18 and H1FY19:** VIL has been reporting a satisfactory operational performance with the capacity utilization of the plants witnessing an improving trend over the last three years. VIL reported satisfactory financial performance in FY18 with the company registering a y-o-y growth of 6.54% in total operating income during the year. While the revenue growth was moderate, the profit level and margins reported strong

growth backed by optimization of costs, increased realizations and low finance cost. PAT level grew by about 56% in FY18 on a y-o-y basis and the GCA also witnessed a significant y-o-y growth of about 32% (to Rs.100.43 crore) during FY18. The improvement in financial performance continued during H1FY19 and VIL reported revenue and PAT of Rs.605.63 crore and Rs.44.28 crore respectively reflecting a y-o-y growth of 11.25% and 19.35%. The same was led by higher volumes in the building segment and economies of scale.

**Robust financial and liquidity position:** VIL enjoys a robust liquidity profile at the back of adequate gross cash accruals (Rs.100.43 crore during FY18) and cash & bank balance of Rs.19.38 crore as on September 30, 2018 (Rs.14.69 crore as on March 31, 2018). In comparison to the cash accrual generated, the debt servicing obligation is very low which results in satisfactory debt coverage ratios.

Furthermore, VIL has a favourable capital structure with both debt-equity and overall gearing ratio below unity as on March 31, 2018 and September 30, 2018. The strong financial & liquidity profile is backed by adequate cash generation, low debt repayment obligations and efficient management of working capital requirements. Despite an extended inventory period, the working capital management has been efficient with low dependence on external borrowings.

**Substantial completion of proposed capex:** VIL is in final stages of setting up a new Non-asbestos V-boards unit at Jhajhar, Harayana, with manufacturing capacity of 50,000 MTPA with a total capex of about Rs.100.0 crore. The new unit is expected to commence operations from December 2018, and will increase the production capacity of fibre boards to 170,000 MTPA. Additionally, trial runs of the roofing product ATUM (integrated solar panel with a cement base) plant at Miryalguda, Telangana, have been successfully completed and commercial production is expected to commence from end of November 2018.

**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%). The Government in the Union Budget of 2017-18 has proposed to construct one crore houses for the homeless by 2019-20. 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

**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 36% 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.

**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.

**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.

**Analytical approach:** Standalone financials of VIL have been considered for analysis.

#### Applicable Criteria

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

[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 120,000 MTPA for non-asbestos boards, 9,750 MTPA for panels and yarn manufacturing capacity of 12,000 MTPA. The company's current 11 manufacturing units are spread across 8 States.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	964.43	1027.50
PBILDT	130.73	153.81
PAT	42.78	66.56
Overall gearing (times)	0.64	0.64
Interest coverage (times)	6.77	8.64

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Analyst Contact:

Name: Ms. Puja Jalan

Tel: 040 40102030

Mobile: +91 9160001511

Email: [puja.jalan@careratings.com](mailto:puja.jalan@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.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.

### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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
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 2029	119.64	CARE AA-; Stable
Fund-based - ST-Term loan	-	-	-	150.00	CARE A1+
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	0.00	Withdrawn
Fund-based - ST-Term loan	-	-	-	50.00	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 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.	Fund-based - LT-Cash Credit	LT	130.00	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Dec-17)	1)CARE A+ (30-Nov-16)	1)CARE A+ (15-Oct-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A1+	-	1)CARE A1+ (04-Dec-17)	1)CARE A1+ (30-Nov-16)	1)CARE A1+ (15-Oct-15)
3.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A1+	-	1)CARE A1+ (04-Dec-17)	1)CARE A1+ (30-Nov-16)	1)CARE A1+ (15-Oct-15)
4.	Fund-based - LT-Term Loan	LT	119.64	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Dec-17)	1)CARE A+ (30-Nov-16)	1)CARE A+ (15-Oct-15)
5.	Fixed Deposit	LT	25.00	CARE AA- (FD); Stable	-	1)CARE AA- (FD); Stable (04-Dec-17)	1)CARE A+ (FD) (30-Nov-16)	1)CARE A+ (FD) (15-Oct-15)
6.	Fund-based - ST-Term loan	ST	150.00	CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (04-Dec-17)	1)CARE A+ / CARE A1+ (30-Nov-16)	1)CARE A+ / CARE A1+ (15-Oct-15)
7.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	-	-	-	1)CARE AA-; Stable / CARE A1+ (04-Dec-17)	1)CARE A+ / CARE A1+ (30-Nov-16)	1)CARE A+ / CARE A1+ (15-Oct-15)
8.	Fund-based - ST-Term loan	ST	50.00	CARE A1+	-	1)CARE A1+ (04-Dec-17)	1)CARE A1+ (30-Nov-16)	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 851111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)