

## Visaka Industries Limited

December 04, 2017

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	257.36 (reduced from 285.91)	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Revised from CARE A+ [Single A Plus]
Short-term Bank Facilities	115.00 (reduced from 185.00)	CARE A1+ (A One Plus)	Reaffirmed
Long/Short-term Bank Facilities	118.50	CARE AA-; Stable/ CARE A1+ [Double A Minus; Outlook: Stable/A One Plus]	Revised from CARE A+/ CARE A1+ (Single A Plus/ A One Plus)
<b>Total Facilities</b>	<b>490.86</b> <b>(Rupees Four Hundred Ninety crore and Eighty Six lakh only)</b>		
Fixed Deposit programme	25.00 (Rupees Twenty Five crore only)	CARE AA- (FD); Stable [Double A Minus (Fixed Deposit); Outlook: Stable]	Revised from CARE A+ (FD) [Single A Plus (Fixed Deposit)]

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities and fixed deposit programme of Visaka Industries Limited (VIL) takes into account significant growth in scale of operations of the company over last few years with diversification of revenue stream with growing contribution from non-asbestos business segments, substantial improvement in profitability and cash accruals during FY17 (refers to the period April 1 to March 31) & H1FY18 and robust financial & liquidity position along with improvement in the same during the year. The ratings 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 and improvement in the well established accounting and regulatory compliance mechanism in place. The ratings are, however, constrained by flat revenue growth during FY17 & H1FY18 y-o-y basis, 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.

### 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 textiles segments. The company 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 revenue contribution from V-Next products (non-asbestos boards & panels segment) and textiles segment (synthetic yarns) increased to about 33% during FY17 (vis-à-vis 31% during FY16).

**Substantial improvement in financial performance in FY17 and H1FY18:** 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 strong financial performance in FY17 & H1FY18 despite a muted revenue growth during the period. The PBILDT

level and margin improved substantially by about 23% and 288 bps (to 13.04%) respectively in FY17 backed by lower input prices. The GCA also witnessed a significant y-o-y growth of about 30% during FY17.

The improvement in profitability parameters continued during H1FY18 wherein the company registered a PBILDT and PAT growth of about 22% (to Rs.82.6 crore) and about 40% (to Rs.37.1 crore) respectively on y-o-y basis.

**Robust financial and liquidity position:** VIL has a favourable capital structure with strong cash accruals generated over the years. The capital structure as represented by the overall gearing witnessed further improvement as on March 31, 2017 with reduction in overall debt by close to Rs.109 crore. The reduced debt along with improved profit has subsequently resulted in improvement in other debt coverage indicators.

The company continues to have a comfortable liquidity profile backed by adequate cash generation, low debt repayment obligations and efficient management of working capital requirements. Despite an extended inventory period, the working capital utilization has been at a relatively low level.

**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 live in houses with thatched roof/tiles which require continuous maintenance and replacement resulting in increased demand for durable houses. 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

**Flat revenue growth during FY17:** The total operating income of the company registered a marginal y-o-y decline of 3.8% in FY17 from FY16. The flat revenue growth was on account of decline in the ACS business segment albeit flat growth in the non-asbestos boards & panels segment and slowdown in the overall textile industry which impacted the synthetic yarn business segment during the year. The trend continued during H1FY18 with total operating income registered de-growth of about 3% led by lower contribution from textile division.

**Risk associated with volatility in raw material prices and foreign exchange fluctuations:** The input prices of the key raw material, Asbestos fibre, is volatile in nature which subjects the profitability to moderate risk associated with adverse movement of prices which to an extent is protected by the yearly agreements with respect to the same. Furthermore, 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.

**Analytical approach:** Standalone financials

#### 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 10,500 MTPA.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1007.57	968.66
PBILDT	102.33	126.36
PAT	24.44	40.80
Overall gearing (times)	1.04	0.66
Interest coverage (times)	4.83	7.11

**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.

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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
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	-	-	-	55.00	CARE A1+
Fund-based - LT-Term Loan	-	-	March 2027	127.36	CARE AA-; Stable
Fund-based - LT/ ST-Buyers Credit	-	-	-	100.00	CARE AA-; Stable / CARE A1+
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	18.50	CARE AA-; Stable / CARE A1+
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 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.	Fund-based - LT-Cash Credit	LT	130.00	CARE AA-; Stable	-	1)CARE A+ (30-Nov-16)	1)CARE A+ (15-Oct-15)	1)CARE A+ (05-Nov-14)
2.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A1+	-	1)CARE A1+ (30-Nov-16)	1)CARE A1+ (15-Oct-15)	1)CARE A1+ (05-Nov-14)
3.	Non-fund-based - ST-Letter of credit	ST	55.00	CARE A1+	-	1)CARE A1+ (30-Nov-16)	1)CARE A1+ (15-Oct-15)	1)CARE A1+ (05-Nov-14)
4.	Fund-based - LT-Term Loan	LT	127.36	CARE AA-; Stable	-	1)CARE A+ (30-Nov-16)	1)CARE A+ (15-Oct-15)	1)CARE A+ (05-Nov-14)
5.	Fixed Deposit	LT	25.00	CARE AA-(FD); Stable	-	1)CARE A+ (FD) (30-Nov-16)	1)CARE A+ (FD) (15-Oct-15)	1)CARE A+ (FD) (05-Nov-14)
6.	Fund-based - LT/ ST-Buyers Credit	LT/ST	100.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (30-Nov-16)	1)CARE A+ / CARE A1+ (15-Oct-15)	1)CARE A+ / CARE A1+ (05-Nov-14)
7.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	18.50	CARE AA-; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (30-Nov-16)	1)CARE A+ / CARE A1+ (15-Oct-15)	1)CARE A+ / CARE A1+ (05-Nov-14)
8.	Fund-based - ST-Term loan	ST	50.00	CARE A1+	-	1)CARE A1+ (30-Nov-16)	-	-

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