

Vishnu Chemicals Limited

December 18, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	213.73 (reduced from Rs.227.12 crore)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB-; Negative(Triple B Minus; Outlook: Negative)
Short term Bank Facilities	114.35	CARE A4 + (A Four Plus)	Revised from CARE A3 (A Three)
Total	328.08 (Rs. Three hundred and twenty eight crore and eight lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Vishnu Chemicals Limited (VCL) is primarily on account of decline in operational and financial performance coupled with deterioration in capital structure during FY17 (FY refers to the period from April 01 to March 31). The ratings continue to remain tempered by , VCL's exposure to volatile raw material prices which impact the profitability margins, foreign exchange fluctuation risk and working capital intensive nature of business with elongated operating cycle albeit marginal improvement during FY17. The ratings, however, derive strength from the promoter's experience and long track record of the company, diversified revenue profile with wide geographical presence catering to both domestic and international markets and long standing association with reputed clientele. The ratings also take into account successful completion of project except implementation of Carbon Dioxide (CO₂) acidification and gas recovery plant resulting in cost and time overrun. The ability of the company to improve its scale of operation and profitability and successful completion of pending capex within revised estimates are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in total operating income, profitability margins and profits in FY17: The TOI of the company witnessed decline during FY17 mainly due to stoppage of production on account of maintenance for augmentation for 45 days and process development towards capital works. PBILDT margin of the company also declined significantly by 415 bps in FY17 primarily due to decline in sales coupled with increased raw material (RM) cost notably chrome ore cost. For Q1FY18 (un-audited) the company recorded sales of Rs.118.59 crore and PAT of Rs.0.44 crore.

Decline in operational performance during FY17: During FY17, the capacity utilization levels of the company declined on account of decrease in production which was impacted on account of maintenance for augmentation for 45 days (i.e April 2016-May 2016) and process development towards capital works.

Leveraged capital structure with deterioration in debt coverage indicators: VCL's capital structure continues to remain leveraged marked by overall gearing of 1.85x as on March 31, 2017 and further deteriorated on account of increased debt level as on March 31, 2017 availed for ongoing capex. The debt coverage indicators like interest coverage ratio and debt to GCA ratio also deteriorated on account of increased debt levels and lower PBILDT level.

Exposure to volatile raw material prices: Raw material constitutes around 49.47% of total cost in FY17. Chrome ore is one of the major raw materials for the company. Other major raw material for the company is Soda Ash. Chrome prices increased significantly during October 2016 to March 2017 which could not be completely passed on to customers on account of competition, thereby impacting margins.

Working capital intensive nature of business with elongated operating cycle: The chemical industry is working capital intensive in nature resulting in high reliance on bank borrowings. The average working capital utilization level of the

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

company has been high at 90% for the last 12 months ended in October 31, 2017. Operating cycle of the company continues to remain elongated despite improvement primarily on account of high inventory holding period.

Foreign exchange fluctuation risk: VCL is exposed to forex fluctuation risk primarily on account of import of raw material. Around 66.11% of the raw material was imported during FY17. However, there is a natural hedge in the form of exports which has been covering its imports.

Key Rating Strengths

Promoter's experience and long track record of the company: The main promoter of the company, Mr.Ch. Krishna Murthy (Chairman and Managing Director) is a postgraduate in management and is having 25 years of experience in chemical and logistics industry. He started the company in 1989 and is one of the key architects in developing the company and is instrumental in transforming the company to its present form.

Diversified revenue profile with wide geographical presence: VCL has established presence in both domestic as well as international markets. Exports constituted around 36.58% of the company's net sales for FY17 (36.02% during FY16). The company has developed client base across the globe.

Long standing association with reputed clientele: VCL has benefitted from its experienced promoters who have been associated with the chemical industry for over two decades and have been able to establish long standing relationships with its clientele.

Successful completion of project except implementation of CO₂ acidification with cost and time overrun: The company has successfully completed the project except implementation of CO₂ acidification and gas recovery plant. There has been both cost and time overrun. The cost overrun is expected to be funded by the promoters of the company through unsecured loans.

Industry Prospects: The company operates in a niche segment of chemical industry with few players and entry barriers. The demand for the products the company manufactures is expected to improve with improved economy.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Vishnu Chemicals Limited (VCL) was originally incorporated on March 27, 1989. The company was later merged into Keystone Industries Limited (KSIL), a company which was incorporated on January 15, 1993 in Maharashtra. The registered office of the KSIL was shifted to then Andhra Pradesh on May 27, 2005 and subsequently the name was changed to the current nomenclature on January 02, 2006. Promoted by Mr. Ch. Krishna Murthy (present Chairman and Managing Director), VCL is engaged in the manufacturing of chrome chemicals, specialty chemicals and peptides. The company also undertakes custom synthesis services.

The product profile includes sodium dichromate, basic chromium sulphate, potassium dichromate, chrome oxide green, sodium saccharin, saccharin insoluble, White Sodium Sulphate (WSS), yellow sodium sulphate (used for conversion into WSS) and menadione (Vitamin K3).

The company has four manufacturing units, two in Telangana, one in Andhra Pradesh and one unit in Chhattisgarh with a total installed capacity of 86,700 Metric Tonne Per Annum (MTPA) (86,000 MTPA in FY16) for sodium dichromate and 88,000 MTPA (72,000 MTPA) for basic chromium sulphate. The company also has research and development facility at Jeedimetla in Telangana.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	462.81	447.96
PBILDT	87.73	66.30
PAT	26.04	12.00
Overall gearing (times)	1.61	1.85
Interest coverage (times)	2.52	1.99

A:Audited

Status of non-cooperation with previous CRA

- India Ratings and Research has withdrawn Vishnu Chemicals Limited's rating due to lack of adequate information as per press release dated February 19, 2016.
- CRISIL has suspended its ratings assigned to the bank facilities of Vishnu Chemicals Limited (VCL) on account of non-cooperation vide press release dated February 12, 2013.

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. 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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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-Term Loan	-	-	March 2024	113.73	CARE BB+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	100.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	110.00	CARE A4+
Fund-based - ST-Standby Line of Credit	-	-	-	4.35	CARE A4+

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-Term Loan	LT	113.73	CARE BB+; Stable	-	1)CARE BBB-; Negative (12-Jan-17)	1)CARE BBB- (24-Jul-15) 2)CARE BB+ (05-May-15)	1)CARE BB- (29-Sep-14)
2.	Fund-based - LT-Working Capital Limits	LT	100.00	CARE BB+; Stable	-	1)CARE BBB-; Negative (12-Jan-17)	1)CARE BBB- (24-Jul-15) 2)CARE BB+ (05-May-15)	1)CARE BB- (29-Sep-14)
3.	Non-fund-based - ST-BG/LC	ST	110.00	CARE A4+	-	1)CARE A3 (12-Jan-17)	1)CARE A3 (24-Jul-15) 2)CARE A4+ (05-May-15)	1)CARE A4 (29-Sep-14)
4.	Fund-based - ST-Standby Line of Credit	ST	4.35	CARE A4+	-	1)CARE A3 (12-Jan-17)	1)CARE A3 (24-Jul-15) 2)CARE A4+ (05-May-15)	1)CARE A4 (29-Sep-14)

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