

Vishnu Chemicals Limited (Revised)

July 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	178.62 (reduced from Rs. 188.79 crore)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	118.45 (enhanced from Rs. 114.35 crore)	CARE A4+ (A Four Plus)	Reaffirmed
Total	297.07 (Rupees Two Hundred Ninety Seven Crore and Seven Lakhs only)		

Details of facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vishnu Chemicals Limited (VCL) continue to remain tempered by VCL's exposure to volatile raw material prices which impact the profitability margins, moderately leveraged capital structure albeit improvement, stretched liquidity position with continuing high reliance on bank borrowings, foreign exchange fluctuation risk and project implementation risk with delay in implementation resulting in cost overrun. 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, long standing association with reputed clientele and stable industry outlook. The ratings also take into account improvement in operational performance during FY19 (FY refers to period from April 01 to March 31) resulting in increase in income and profit levels. The ability of the company to complete the pending capex within estimated timelines and derive benefits as envisaged and improve its liquidity position while managing its working capital requirements are the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Weaknesses

Volatility in raw material prices: For VCL, raw material cost is a major cost driver. Raw material cost constituted around 54% of total cost in FY19 on a consolidated basis. The prices of raw material continue to remain volatile and hence have a bearing on the PBILDT margin of the company. On an overall basis, around 57% of the total raw material requirement in FY19 was sourced by way of imports (45% in FY18). Company enters into long term supply contracts with key raw material suppliers to have competitive advancement in terms of price and availability of materials.

Moderately leveraged capital structure albeit improvement: The capital structure of VCL continues to remain leveraged owing to high debt levels. The overall gearing ratio of the company on a consolidated basis although improved from 1.75x as on March 31, 2018 to 1.55x as on March 31, 2019 on account of reduction in term debt and increase in networth owing to accumulation of profits; continues to remain leveraged.

Exposure to foreign exchange fluctuation risk: VCL is exposed to forex fluctuation risk on account of import of raw material as well as exports. Around 57% of the raw material is imported during FY19 (45% during FY18). However, there is a natural hedge which has been covering its imports. Further, during FY19, the company has registered net loss on forex translations and transactions to the extent of Rs. 4.37 crore against net gain of Rs. 6.41 crore during FY18.

Ongoing project implementation risk: The Company continues to remain exposed to project implementation risk with respect to its Carbon Di-oxide (CO₂) gas recovery plant which is further getting delayed and resulting to further cost overrun. The company is expecting to complete the project within 9 to 12 months from the date of disbursement of term loans with all technical stabilizations. During last surveillance, the revised cost for the project was Rs. 29.30 crore while now it has been again revised to Rs. 35 crore.

Key Rating Strengths

Experienced Promoters with established track record and extending financial support: The main promoter of the company, Mr. Ch. Krishna Murthy (Chairman and Managing Director) is a postgraduate in management and is having 40 years of rich experience in chemical and logistics industry. He started the company in 1989 and is one of the key architects in developing the company. VCL's co-promoter Mr. Ch. Siddhartha, (Joint Managing Director) is B. Tech in industrial biotechnology and

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

MBA from US. He is responsible for all international marketing activities and strategic business development. The promoters have been supporting the business by way of infusing unsecured loans.

Diversified revenue profile with wide geographical presence: VCL has established presence in both domestic as well as international markets. Exports constituted around 48% of the company's gross sales for FY19 against 47% during FY18 on a consolidated basis. The company has developed client base across the globe. Majority of the exports are to Uganda, Brazil, China, Italy, Mexico, Korea, Belgium etc. In terms of value, exports increased by almost 21.10% to Rs. 367.13 crore during FY19 vis-à-vis Rs. 303.16 crore in FY18.

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. The company has been able to cater to reputed clientele and gets repeat orders from them on a quarterly basis.

Improved operational performance during FY19: The operational performance of the company witnessed improvement during FY19 vis-à-vis FY18. For VCL (Standalone), the Capacity Utilization (CU) level increased from 55% for FY18 to around 60% during FY19 primarily for White Sodium Sulphate, Chromic Acid and Chrome Oxide Green. For Vishnu Barium Private Limited (VBPL), the CU level was at 82% for FY19 (81% for FY18). Increased utilisation levels were backed by increase in demand.

Notable increase in scale of operations during FY19 along with increase in PAT margins: Total Operating Income on a consolidated basis has increased notably by 17.18% in FY19 from Rs. 658.69 crore in FY18 to Rs. 771.85 crore in FY19 on account of growth in domestic sales and sales realization of Vishnu Chemicals Limited and increase in exports of Vishnu Barium Private Limited. Total Operating Income increased by 16.11% (28.78% in FY18) on a standalone basis to Rs. 669.93 crore in FY19 against Rs. 576.97 crore in FY18 primarily on account of increased sales of Basic Chromium Sulphate and Sodium Dichromate backed by increased demand. PBILDT margin of the company on a consolidated basis remained stable at 13.56% in FY19 vis-à-vis 13.59% in FY18. PAT margin of the company on a consolidated basis increased by 97bps to 3.16% in FY19 vis-à-vis 2.19% in FY18. For FY19, the company registered PAT of Rs. 24.36 crore (Rs. 14.42 crore for FY18) with GCA of around Rs. 49 crore (Rs. 35 crore during FY18) on consolidated basis.

Stable Industry Outlook: Favorable demographics & strong economic growth are driving demand for chemicals. Higher demand for chemicals, both bulk as well as specialty, has driven the overall growth of the industry over the last few years. Healthy growth in end user industries would expand the specialty chemicals market by 2024. Industry is likely to almost double in size from existing 163 billion USD in FY18 to 300 billion USD in FY30.

Liquidity analysis: Stretched - Liquidity is marked by highly utilized bank limits and modest cash balance. As on March 31, 2019, the company had cash and bank balances to the tune of Rs. 0.32 crore and investments of Rs. 1.24 crore (Consol.). The average working capital utilization levels continue to remain high at around 95%. The company has availed adhoc limits of Rs. 4.10 crore in the month of March 2019 to support its operations. Comfort is also derived from the promoters infusing funds to support the operations and capex of the company.

Analytical approach: Consolidated - CARE has considered financials of Vishnu Chemicals Ltd. (VCL) (Holding company), Vishnu Barium Pvt. Ltd. (wholly owned subsidiary of VCL), Vishnu Hong Kong Ltd. (closed during the year) and Vishnu South Africa Pty Ltd. (wholly owned subsidiary of VCL – yet to start operations) in its analysis as the companies are in the similar line of business and have operational/financial linkages.

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 - 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 United 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 (Chairman and Managing Director) and headquartered at Hyderabad, VCL is in the business of manufacturing, marketing and export of Chromium chemicals and other specialty chemicals. Vishnu Chemical's product profile includes sodium dichromate (used in preparing chromium based derivatives), basic chromium sulphate (used for tanning and processing in leather industries) under the brand name of "Vishnuchrome", potassium dichromate (screen printing, photographic engraving, preparation of chromic acid etc), chrome oxide green (ingredient in refractories, brake linings, ceramic industry), sodium saccharin (used in food and beverages,

personal care products, pharmaceuticals etc.), saccharin insoluble, White Sodium Sulphate (WSS) (used in detergent dyes, glass and paper, etc) and menadione (Vitamin K3).

The company has four manufacturing units, one in Telangana, two in Andhra Pradesh and one unit in Chhattisgarh with a total installed capacity of 231,000 Metric Tonne Per Annum (MTPA) as per March 31, 2019. The company also has research and development facility at Jeedimetla near Hyderabad in Telangana.

Vishnu Barium Private Limited (VBPL) [erstwhile Solvay Vishnu Barium Private Limited] was incorporated on May 29, 2001 as a JV between Solvay group (Belgium Chemical Group) and Vishnu Chemicals Limited (VCL). After 5 years of operation, Solvay group took over the entire stake in the company. Subsequently, during H1FY16, VCL bought the 100% stake from Solvay group and thereafter VBPL continued operations starting July 01, 2015 as a wholly owned subsidiary of VCL. VBPL has its manufacturing plant at Kalahasti, Andhra Pradesh with an installed capacity of 40,000 MTPA and is one of the leading manufacturers of barium carbonate in India. Barium Carbonate (powder and granules), sulphur and barium sulphide are the key products manufactured by VBPL.

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

Consolidated Financials:

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	658.69	771.85
PBILDT	89.51	104.69
PAT	14.42	24.36
Overall gearing (times)	1.75	1.55
Interest coverage (times)	1.84	2.23

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

Annexure-1: Details of 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	-	-	December 2023	78.62	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	-	-	-	8.45	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the 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-Term Loan	LT	78.62	CARE BB+; Stable	-	1) CARE BB+; Stable (30-Jan-19)	1) CARE BB+; Stable (18-Dec-17)	1) CARE BBB-; Negative (12-Jan-17)
2.	Fund-based - LT-Working Capital Limits	LT	100.00	CARE BB+; Stable	-	1) CARE BB+; Stable	1) CARE BB+; Stable	1) CARE BBB-; Negative

						(30-Jan-19)	(18-Dec-17)	(12-Jan-17)
3.	Non-fund-based - ST-BG/LC	ST	110.00	CARE A4+	-	1) CARE A4+ (30-Jan-19)	1) CARE A4+ (18-Dec-17)	1) CARE A3 (12-Jan-17)
4.	Fund-based - ST-Standby Line of Credit	ST	8.45	CARE A4+	-	1) CARE A4+ (30-Jan-19)	1) CARE A4+ (18-Dec-17)	1) CARE A3 (12-Jan-17)

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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