

October 30, 2024

## Vaighai Chemical Industries Limited: Ratings reaffirmed and rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Cash credit	27.00	20.00	[ICRA]BBB- (Stable); reaffirmed
Long-term - Fund based-WCDL	0.00	2.00	[ICRA]BBB- (Stable); assigned
Long term - Term loan	0.43	9.40	[ICRA]BBB- (Stable); reaffirmed and assigned for enhanced amount
Short term - Non-fund-based facility – Others	11.50	17.00	[ICRA]A3; reaffirmed and assigned for enhanced amount
Long term/Short term – Unallocated	0.00	0.39	[ICRA]BBB- (Stable)/ [ICRA]A3; assigned
<b>Total</b>	<b>38.93</b>	<b>48.79</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the ratings continues to factor in the established market position of Vaighai Chemical Industries Limited (VCIL) as a manufacturer of potassium chlorate and the promoters' experience of over three decades in the industry. The ratings also continue to draw comfort from the company's healthy financial profile, characterised by a comfortable capital structure and adequate liquidity position. Going forward, ICRA expects the company's profitability to be supported by its established brand, moderating input costs and the higher proportion of exports.

ICRA notes that domestic and export volumes improved in FY2024 on account of the increased demand in India as well as in the developing countries of Asia, Africa and Latin America. At the same time, the company's profit margins improved YoY with a moderation in raw material prices. Moreover, the capital structure and coverage metrics continue to be comfortable.

The ratings are, however, constrained by VCIL's modest scale of operations, a moderate growth in the domestic market and high product concentration. VCIL's product portfolio comprises a single product, potassium chlorate. This results in high product concentration risk for the company, which restricts its operational flexibility. Further, the company imports its key raw material, potassium chloride, from a few suppliers, which exposes it to high supplier concentration risk. Further, the domestic demand growth is expected to be subdued in the medium term.

The company's profitability remains vulnerable to the fluctuations in raw material prices and foreign exchange rates. ICRA also notes that loans and advances were extended to sister concern, Vaighai Agro Products Limited (VAPL), in FY2024 and any considerable increase in advances in the future would adversely impact VCIL's liquidity profile and will remain a key monitorable, going forward.

The Stable outlook on the rating reflects ICRA's opinion that VCIL will continue to benefit from its established presence in the domestic market and the favourable business prospects in the export market

## Key rating drivers and their description

### Credit strengths

**Extensive experience and established position in potassium chlorate manufacturing** – VCIL, established in 1980, is a part of the larger Vaighai Group of Companies, and manufactures potassium chlorate. The promoters of the company have over three decades of experience in the industry. VCIL is one of the major manufacturers of potassium chlorate in India. Its established market position and presence in a niche product segment support the pricing flexibility to some extent.

**Growth in domestic and export volumes** – In FY2024, the domestic volumes grew ~16% YoY, while the export volumes rose by around 34% with the company deriving around 39% of its total sales from exports in FY2024, up from ~38% in FY2023 and 35% in FY2022. Also, as of H1 FY2025, exports accounted for around ~38% of the total sales with volumes of around ~1,300 MT out of the total sales volumes of around ~3,700 MT.

**Comfortable capital structure and coverage metrics** – The overall debt levels slightly increased in FY2024 on the back of an increase in short-term borrowings. The company's capital structure remained comfortable, supported by healthy accretion to reserves with a gearing of 0.3 times and TOL/TNW at 0.5 times in FY2024, compared with a gearing of 0.2 times and TOL/TNW of 0.5 times in FY2023. The interest coverage increased to 8.2 times in FY2024 from 4.2 times in FY2023 due to increased OPBITDA, while the DSCR improved to 3.0 times in FY2024 from 2.4 times in FY2023.

### Credit challenges

**Moderate scale of operations and limited ability to scale up in the domestic market** – VCIL's scale remains moderate, limiting the benefits from the economies of scale. Growth in the domestic market has been limited by the market size and competition from other domestic players. As the company's ability to scale up its revenues significantly in the domestic market is limited, VCIL is increasing its focus on the export markets.

**High product concentration risk** – VCIL's product portfolio comprises a single product, potassium chlorate. This results in high product concentration risk for the company, which restricts its operational flexibility. Further, the company imports its key raw material, potassium chloride, from a few suppliers, which also exposes it to high supplier concentration risk.

**Exposure to forex fluctuations** – VCIL derived 39% of its total sales from exports in FY2024, exposing the margins to the volatility in foreign exchange rates. However, the company enjoys a natural hedge to some extent as it imports ~100% potassium chloride from Germany, UAE and Jordan.

### Liquidity position: Adequate

VCIL's liquidity is expected to remain adequate, supported by healthy cash accruals vis-a-vis the long-term debt repayment obligations and buffer in working capital limits, with an average utilisation of ~33% during June 2023 to September 2024. The company had external debt of Rs. 2.0 crore as on March 31, 2024, which will be repaid in FY2025. VCIL is undertaking plant modernisation and capacity expansion at a cost of around Rs. 12 crore in FY2025 which will be funded by a Rs. 9.40-crore term loan and the remaining from internal accruals. This loan has been sanctioned and drawn down in H1 FY2025 with an annual repayment of Rs. 1.88 crore starting from April 2025 for a 5-year tenure.

### Rating sensitivities

**Positive factors** – ICRA may upgrade VCIL's ratings if the company demonstrates a significant improvement in its scale of operations and profitability, going forward.

**Negative factors** – Pressure on VCIL's ratings may arise if there is a sustained decline in profitability or weakening of the coverage metrics. The ratings may also be downgraded if there is a stretch in the working capital cycle or/and increase in loans

and advances to group companies that would impact VCIL's liquidity profile. A specific credit metric for downgrade would be the TD/OBITDA increasing to more than 3.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Chemicals</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

## About the company

Vaighai Chemical Industries Limited (VCIL) was incorporated in 1980 and later converted into a deemed public limited company in 2001. The company was established by Mr. K Periasamy Nadar, Mr. SSV Chellakani Nadar and Mr. S Varadarajan. The company manufactures match-grade potassium chlorate, catering to domestic as well as overseas customers. Its manufacturing facility is at Karaikkal, Puducherry, with an installed capacity of 9,000 metric tonnes per annum (TPA). The company has two gas-based power plants with a capacity of 3.6MW each to meet the power requirements of the plant. It has a network of 13 depots across Tamil Nadu to cater to the requirements of domestic manufacturers. The company belongs to the Madurai-based Vaighai Group of Companies, which was established in 1980.

## Key financial indicators (audited)

	FY2023	FY2024
Operating income	75.5	90.4
PAT	3.2	6.3
OPBDIT/OI	9.8%	11.8%
PAT/OI	4.3%	7.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	1.5	1.5
Interest coverage (times)	4.2	8.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Oct 30,2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long term - Fund based - Cash credit	Long term	20.00	[ICRA]BBB-(Stable)	27-OCT-2023	[ICRA]BBB-(Stable)	12-AUG-2022	[ICRA]BBB-(Stable)	25-JUN-2021	[ICRA]BBB-(Stable)
Long term - Fund based - Term loan	Long term	9.40	[ICRA]BBB-(Stable)	27-OCT-2023	[ICRA]BBB-(Stable)	12-AUG-2022	[ICRA]BBB-(Stable)	25-JUN-2021	[ICRA]BBB-(Stable)
Short term – Non-fund based - Others	Short term	17.00	[ICRA]A3	27-OCT-2023	[ICRA]A3	12-AUG-2022	[ICRA]A3	25-JUN-2021	[ICRA]A3
Long term - Fund based - Working capital demand loan	Long term	2.00	[ICRA]BBB-(Stable)	-	-	-	-	-	-
Long term/Short term - Unallocated	Long term/Short term	0.39	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-	-	-
Unallocated	Long term	-	-	-	-	12-AUG-2022	[ICRA]BBB-(Stable)	25-JUN-2021	[ICRA]BBB-(Stable)
Interchangeable	Long term	-	-	-	-	12-AUG-2022	[ICRA]BBB-(Stable)	25-JUN-2021	[ICRA]BBB-(Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based – Cash credit	Simple
Long term – Fund-based – WC DL	Simple
Long term - Fund-based – Term loan	Simple
Short term – Non-fund based – Others	Very Simple
Long term/Short term – Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	20.00	[ICRA]BBB-(Stable)
NA	Term loan	Aug 02, 2024	NA	Mar 31, 2030	9.40	[ICRA]BBB-(Stable)
NA	Letter of credit	NA	NA	NA	16.50	[ICRA]A3
NA	LER	NA	NA	NA	00.50	[ICRA]A3
NA	WCDL	NA	NA	NA	2.00	[ICRA]BBB-(Stable)
NA	Unallocated	NA	NA	NA	0.39	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis- Not applicable**

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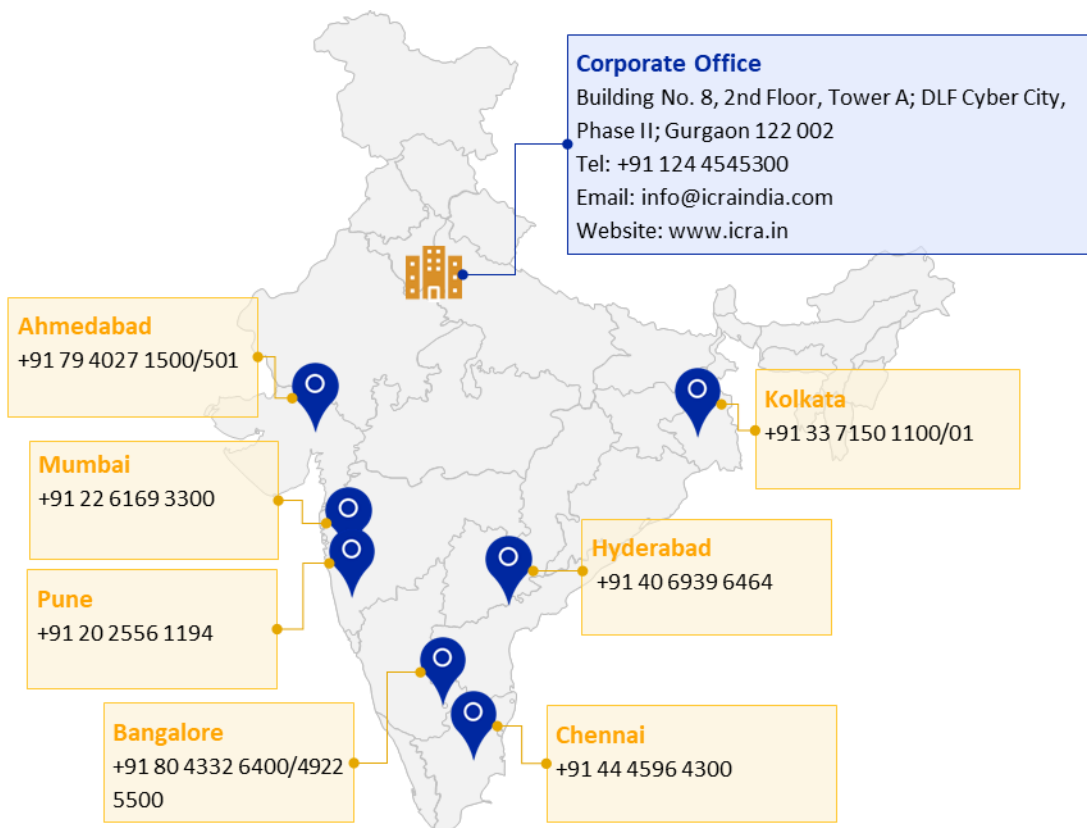
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