February 25, 2025

Vihita Chem Private Limited: [ICRA]BB (Stable)/[ICRA]A4 assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based - Working capital	30.00	[ICRA]BB (Stable) assigned
Long term - Fund-based - Term loan	23.57	[ICRA]BB (Stable) assigned
Long term/Short term – Non-fund based - CEL	1.00	[ICRA]BB (Stable)/[ICRA]A4 assigned
Long term/Short term - Unallocated	0.43	[ICRA]BB (Stable)/[ICRA]A4 assigned
Total	**55.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings assigned consider the established track record of Vihita Chem Private Limited (VCPL) for nearly three decades, the extensive experience of its promoters and management in the chemical intermediaries' industry, and a reputed and longstanding customer base.

The ratings, however, remain constrained by VCPL's high product and customer concentration risks, a moderate financial risk profile and the working capital-intensive operations with elongated inventory and debtor levels. The ratings also consider the vulnerability of its profitability to fluctuations in raw material prices and foreign exchange rates, along with intense competition in the chemical industry.

The Stable outlook on VCPL's rating reflects ICRA's opinion that the company is likely to sustain its operating metrics owing to its established relationships with clients.

Key rating drivers and their description

Credit strengths

Extensive experience and established track record in chemical intermediates industry – VCPL was incorporated in 1990 to manufacture a single product, guanidine nitrate. Since then, the company has diversified into manufacturing various chemical intermediates catering to different end-products in various industries. The Chairman, Mr. M. M. Patel, has been associated with the company since inception and has experience of four decades in the chemical industry. His son, Mr. Vihit Patel, the Managing Director and CEO, has been managing the company's operations since 2005. Besides the promoters, other management personnel heading operations, research and development, quality control, assurance department etc have experience of more than a decade in the chemical industry.

Reputed and established clientele across domestic and international markets – Over the years, VCPL has developed strong relationships with several reputed clients in both the domestic and international markets like Ireland, China, Malaysia and Spain. Key international clients include Ireland-based fine chemicals manufacturer Arran Chemicals Co. Ltd. and China-based Jiangxi Kaiyuan Fragrance Co. Ltd., a major player in the fragrance and flavour industry. Domestically, VCPL serves leading pharmaceutical companies such as Mylan Laboratories Limited, Jubilant Pharmova Limited, Zydus Lifesciences Limited, etc. The company maintains a long-term relationship with most of its clients, resulting in multiple repeat orders.

Credit challenges

High product and customer concentration risks with intense competition – The company's products find application mainly in fragrances and pharmaceuticals. Its key products, 4-methyl catechol and 4-methyl catechol diacetic acid dimethyl ester, together contributed ~45% to the total sales in FY2024. VCPL's other major product, Sesamol, which is used as a chemical intermediate in the industrial synthesis of pharmaceutical drugs, contributed ~18% to the total sales in FY2024. VCPL's customers mainly include companies in the pharmaceutical and fragrance industries. The company's customer concentration risk remained high, with the top five customers driving ~37% of the total sales in FY2024 and ~41% in FY2023. Nonetheless, most of its clients are reputed and share a long association with VCPL, resulting in numerous repeat orders, which mitigates the customer concentration risk to an extent. Further, VCPL is a moderate-sized player in the chemical intermediates industry and faces intense competition from large organised as well as small unorganised players across the domestic and international markets.

Modest financial risk profile – VCPL's revenue remained modest at Rs. 89.4 crore in FY2024 and Rs. 62.7 crore in 9M FY2025. The operating margins have remained in the range of 12-15% during FY2020-FY2023, but significantly declined in FY2024 to 3.1%. In FY2023, the inventory levels increased due to weak demand in the Chinese and European markets in the fragrance segment, leading to stock accumulation. As the market conditions were subdued, the excess inventory was subsequently sold in FY2024 at lower realisations. This pricing pressure pulled down the operating margins for the year, reflecting the adverse impact of demand fluctuations on profitability. Additionally, the plant was shut down for two months to undergo debottlenecking. During 9M FY2025, the operating margins stabilised and improved to 15.6%.

The capital structure and coverage indicators have remained modest with a gearing of 1.8 times as on March 31, 2024 (PY 1.8 times) and 1.7 times as on December 31, 2024. The interest coverage has remained in the range of 2-3 times during FY2022-FY2023 but deteriorated to 0.4 times in FY2024; the total debt/operating profit was 22 times (5 times in FY2023) in FY2024. In 9M FY2025, the interest coverage was ~2.2 times.

Moderate working capital intensity of operations –The company's working capital intensity of operations remained in the range of 25-30% during FY2023-FY2024. The company's debtor position as of financial year-end for the last two years improved with debtor days of 86 in FY2023 and 74 in FY2014 as against 90 in FY2022, due to faster collection of debtors. The company generally stocks inventory levels of 4-5 months to supply the products to customers in a timely manner. However, the inventory days increased to 216 days in FY2023 and 190 days in FY2024 against 81 days in FY2022 on account of weak demand from the Chinese and European markets in fragrance segment. The company's working capital cycle and liquidity profile, however, are supported by the extended creditor days, which consistently stood above 150 in the last three fiscals. Given the high creditor days of 195 during FY2024, the company's total outside liabilities/tangible net worth ratio remained high at 2.9 times as on March 31, 2024.

Vulnerability of profitability to volatility in raw material prices and forex rates – The company's major raw materials are hydrobromic acid, 4-chloro benzo triclor, methylenedioxyben, veratrole and para cresol, most of which are manufactured from crude oil derivatives. The company's profitability remains vulnerable to any unfavourable movement in the prices of these key inputs, though the same is mitigated to an extent by passing on the price increase to its customers. VCPL also faces sizeable foreign exchange risk as it derives 40-50% of its revenues from exports. There is limited natural hedge by way of imports, which generally account for ~10% of its total purchases. The risk is, however, mitigated to the extent of the forward contracts booked by the company.

Liquidity position: Stretched

VCPL's liquidity position remains stretched with low cash and bank balances of Rs. 0.4 crore as on December 31, 2024 and limited cushion available in working capital with an average maximum utilisation of ~93% for the last 12 months ended December 31, 2024. The company has significant repayment obligations of Rs. 7.83 crore in FY2025 and Rs. 5.86 crore in FY2026. However, the promotors infused around ~Rs. 5 crore as equity and ~Rs. 2.8 crore as unsecured loans in FY2024. The promoters remain committed to support the company, as and when needed.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant growth in the company's revenues and profitability, along with an improvement in the debt coverage metrics and liquidity position.

Negative factors – The rating could be revised downwards if the revenue/profitability is adversely impacted, resulting in a deterioration of the debt protection metrics. Further, any sizeable capex or a stretch in the working capital cycle adversely impacting the liquidity position can trigger a downward rating revision.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Vihita Chem Private Limited, incorporated in 1990, manufactures chemical intermediaries. The company's products find application in flavours, fragrances and pharmaceuticals. The company operates through two manufacturing units at Ankleshwar in Gujarat. Both are multi-product units with a total capacity of 250 kilolitres. The existing capacity will further be utilised to produce import substitute products that will be used in the pharmaceutical and cosmetics industries.

Key financial indicators (audited)

Vihita Chem Private Limited (Standalone)	FY2023	FY2024	9MFY2025 (Provisional)
Operating income	87.1	89.4	62.7
PAT	1.2	-14.1*	2.3
OPBDIT/OI	13.6%	3.1%	15.6%
PAT/OI	1.3%	-15.7%	3.6%
Total outside liabilities/Tangible net worth (times)	3.0	2.9	2.5
Total debt/OPBDIT (times)	5.0	22.1	4.7
Interest coverage (times)	2.3	0.4	2.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
*PAT: Profit after tax (*excludes prior period adjustment of Rs.-10.4 crore and includes Deferred tax liability of Rs.6.2 crore); OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

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					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Feb 25, 2025	Date	Rating	Date	Rating	Date	Rating
Working capital	Long term	30.00	[ICRA]BB (Stable)	-	-	-	-	-	-
Term loan	Long term	23.57	[ICRA]BB (Stable)	-	-	-	-	-	-
CEL	Long term/Short term	1.00	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-	-	-	-
Unallocated	Long term/Short term	0.43	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund-based - Working capital	Simple
Long term – Fund-based - Term loan	Simple
Long term/Short term – Non-fund based - CEL	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	**Working capital**	NA	NA	NA	30.00	[ICRA]BB (Stable)
NA	**Term loan**	FY2022	10.15%	FY2029	23.57	[ICRA]BB (Stable)
NA	**CEL**	NA	NA	NA	1.00	[ICRA]BB (Stable)/ [ICRA]A4
NA	**Unallocated**	NA	NA	NA	0.43	[ICRA]BB (Stable)/ [ICRA]A4

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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 12 4454 5322
prashant.vasisht@icraindia.com

B Kushal Kumar
+91 40 6939 6408
kushal.kumar@icraindia.com

Pooja Tripathi
+91 40 6939 6412
pooja.tripathi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches