

October 27, 2023

## Vaighai Chemical Industries Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Cash credit	20.00	27.00	[ICRA]BBB- (Stable); reaffirmed
Long term - Term loan	10.97	0.43	[ICRA]BBB- (Stable); reaffirmed
Unallocated	0.53	0.00	-
Short term - Non-fund-based facility	19.50	11.50	[ICRA]A3; reaffirmed
Long-term - Interchangeable	(5.00)	0.00	-
<b>Total</b>	<b>51.00</b>	<b>38.93</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 (especially of raw material potassium chloride) and higher proportion of exports. ICRA notes that in FY2023, domestic and export realisations improved on account of the increase in raw material costs. At the same time, the company's profit margins witnessed some moderation on a YoY basis as it could not completely pass on the price hike to domestic customers as majority of them could not absorb this price hike.

The ratings are, however, constrained by VCIL's modest scale of operations, 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 also remains vulnerable to the fluctuations in raw material prices and foreign exchange rates.

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 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.

**Healthy growth in export volume and average realisation** –The company derived 37% of its total sales from exports in FY2021, 35% in FY2022 and 38% in FY2023. Also, as of H1 FY2024, exports accounted for around 37.5% of the total sales with volumes of around ~1,500 MT out of the total sales volumes of around ~4,000MT. The average realisations grew significantly by 38% in FY2023 compared with FY2022 and by 20% in FY2022 compared with FY2021.

**Comfortable capital structure and moderate coverage metrics** – The overall debt levels declined in FY2023 on reduced long-term loans as well as decrease in working capital loans and loan from related parties (director loan). The company's capital structure remained comfortable, supported by healthy accretion to reserves with gearing of 0.2 times and TOL/TNW at 0.5 times in FY2023, compared with gearing of 0.4 times and TOL/TNW of 0.6 times in FY2022. The interest coverage moderated to 5.8 times in FY2023 from 9.5 times in FY2022 due to moderation in OPBITDA, while the DSCR improved to 3.1 times in FY2023 from 2.7 times in FY2022 on the back of the reduction in total debt.

### 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 will increase its focus on the export markets in the future.

**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 38% of its total sales from exports in FY2023, exposing the margins to the volatility in foreign exchange rates. However, the company enjoys a natural hedge to some extent as it imports more than ~75% of its raw materials.

### Liquidity position: Adequate

VCPL's liquidity is expected to remain adequate, supported by healthy cash accruals vis-a-vis low long-term debt repayment obligation and buffer in working capital limits, with average utilisation of ~40% during June 2022 to August 2023. The company had external debt of Rs. 2.9 crore as on March 31, 2023, of which Rs. ~1.9 crore will be repaid in FY2024, ~Rs. 0.4 crore in FY2025 and the balance repayment in subsequent years.

### 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 any fall in profitability pulls down the coverage metrics. A specific credit metric that may lead to a downgrade includes the TD/OBITDA increasing to more than 3.0 times on a sustained basis. The ratings may also be downgraded if its liquidity profile weakens due to a stretch in the working capital cycle.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Chemical Industry</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), while the sanctioned capacity is 12,000 TPA, with a capacity utilisation of 82% in FY2022 and 72.5% in FY2023. 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 Vaighai Group of Companies, which is based in Madurai and was established in 1980.

## Key financial indicators (audited)

	FY2022	FY2023*
Operating income	61.1	75.5
PAT	6.7	5.1
OPBDIT/OI	19.5%	12.7%
PAT/OI	11.0%	6.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	1.5	1.0
Interest coverage (times)	9.5	5.8

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

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

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Oct 03, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2020	
				Oct 27, 2023	Aug 12, 2022	Jun 25, 2021	Mar 02, 2020	Feb 20, 2020
1 Cash credit	Long term	27.00	--	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2 Term loan	Long term	0.43	0.43	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3 Unallocated	Long term	0.00	--	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
4 Non-fund-based facility	Short term	11.50	--	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5 Interchangeable	Long term	0.00	--	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long-term fund-based – Term loan	Simple
Long-term/Short -term – Letter of credit	Very Simple

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	27.00	[ICRA]BBB-(Stable)
NA	Term loan	FY2021	NA	FY2025	0.43	[ICRA]BBB-(Stable)
NA	Letter of credit	NA	NA	NA	11.50	[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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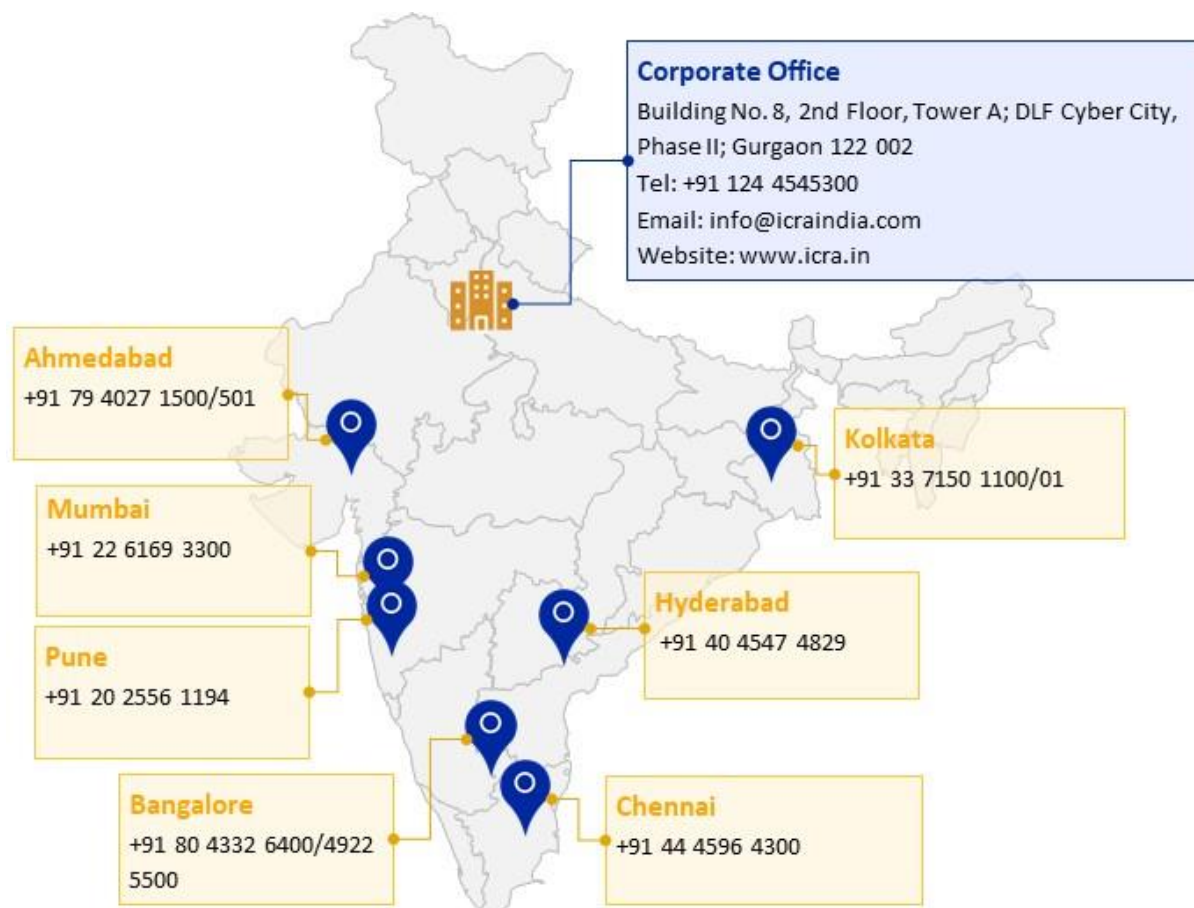


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