November 15, 2023

Best Value Chem Private Limited: Ratings downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	141.50	150.45	[ICRA]A(Negative); downgraded from [ICRA]A+(Negative)
Long term/Short term - Working capital facilities	248.00	224.00	[ICRA]A(Negative)/[ICRA]A2+; downgraded from [ICRA]A+(Negative)/[ICRA]A1
Long term/Short term – Unallocated limits	0.50	15.55	[ICRA]A(Negative)/[ICRA]A2+; downgraded from [ICRA]A+ (Negative)/[ICRA]A1
Total	**390.00**	**390.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings downgrade along with a negative outlook for Best Value Chem Private Limited (BVCPL/the company) factors in the expected moderation in the company's credit profile as it undertakes significant debt-funded capex to set up a new manufacturing facility. ICRA expects the leverage and coverage indicators to remain subdued over the course of the next 12-18 months because of the ongoing capex and modest cash generation from the current operations.

BVCPL is undertaking the capex programme under its subsidiary with a total capital outlay of Rs. 415 crore and the plant is expected to become operational by the end of FY2024. The company is funding the capex by availing a term debt of Rs. 200 crore, while ~Rs. 100 crore will be infused as equity by Premji Invest (PI) and the remaining will be internal accruals. While ICRA expects the operating profit to remain stable in FY2024 vis-à-vis FY2023, the overall credit metrics will remain subdued even after excluding the term debt for the project.

The ratings continue to factor in the extensive experience of the management and the established track record of the company in the flavour and fragrance ingredient manufacturing business, spanning around two decades. Further, the ratings consider the financial flexibility and the operational support from parent Premji Invest, which has a 95% stake in BVCPL. The ratings also factor in its reputed customer base and its established market position in key product segments.

ICRA also notes that the demand prospect for the company's products is expected to remain healthy and the profit margins are likely to improve, aided by the increasing share of value-added products and improving operational efficiencies. Further, the company's ability to garner market share, diversify its revenue mix and demonstrate a healthy growth in revenue and profits would remain important in the medium term.

The ratings are, however, constrained by the company's high product concentration despite the moderation in recent years and the susceptibility of the profit margin to fluctuation in input costs and foreign currency exchange rates. Although the company remains one of the key players in its product segment, the overall market size of its current products remains limited. However, BVCPL continues to develop new products to expand its potential market size, mitigating the risk to an extent. While it faces competition from large national and international players in the aroma chemical industry, most of them are its customers as well as they are gradually moving the procurement of ingredients to BVCPL to focus on high value-added products/blending.

Key rating drivers and their description

Credit strengths

Experienced management and established track record of company - The promoters and the management are well experienced. Mr. Shaju C.O. has been running the business for more than two decades and BVCPL has a well-established track record in the aroma chemical business.

Financial flexibility and operational support from Premji Invest - Premji Invest had acquired a 95% stake in the company in June 2020 and plans to remain invested for the next five to seven years. The presence of Premji Invest provides BVCPL strong financial flexibility to raise capital to meet its capital expenditure and working capital requirements. Moreover, the company also derives operational synergies from Premji Invest's network of companies and the presence of industry veterans from the chemical and the FMCG industries on the board of directors.

Reputed customer base and established market position - The company's customer base comprises reputed and leading global fragrance and flavour (F&F) houses, such as Givaudan SA, Firmenich SA, International Flavours & Fragrances etc, resulting in limited counterparty credit risk. Although BVCPL has high customer concentration with the top five customers contributing to ~55-60% of the company's revenues in FY2023, the risk has moderated from ~70-75% earlier due to the addition of new customers.

Credit challenges

High product concentration risk - BVCPL's revenue increased by ~17% in FY2023. However, the revenue remains exposed to high product concentration risk with its top six products contributing to ~60-65% of the total revenue in FY2023, though the concentration moderated from ~80-85% earlier. While the company is operating at optimum capacity utilisation levels (~100% in FY2023) at present, the product mix is expected to improve in the near term with the launch of value-added products. It also remains exposed to competitive pressures as the aroma chemical industry is characterised by the presence of large established national and international players. However, the company's established position in its key product segments and repeat orders from its customers/competitors suggest a preferred supplier status, thereby limiting the risk to an extent.

Volatility in profit margins - The company's profitability remains vulnerable to the volatility in input costs and foreign currency exchange rate fluctuations. The company's key raw materials are crude oil derivatives, which are volatile in nature. Moreover, export sales contribute to ~75-80% of its revenues, making the company's profitability vulnerable to foreign currency exchange rate fluctuations to the extent unhedged. The company enjoys a natural hedge in the form of imports and foreign currency denominated debt. Nonetheless, the profit margins have remained volatile in the past as the sales contracts are fixed price in nature and revised bi-annually, while the raw material prices are revised every quarter. In FY2022, the operating margins moderated sharply to~5% on account of higher freight expenses and job work costs, and subsequently improved to 13.6% in FY2023. In H1 FY2024, the OPM stood at 11.1%. The company has taken various steps to improve its ability to pass on the impact of input price changes, such as incorporating clauses which allow it to pass on the input price impact on an immediate basis in scenarios of significant price volatility.

Subdued credit metrics –BVCPL's credit metrics improved in FY20223 with an improvement in profitability, although the overall credit profile remained subdued. The capital structure and coverage indicators improved in FY2023 on a consolidated basis compared to FY2022 with gearing at 1.0 times as on March 31, 2023 (1.8 times as on March 31, 2022), interest coverage of 4.35 times (3.72 times in FY2022) and NCA/TD at 22.3% (10.5% in FY2022). The total debt/OPBITDA stood at 3.05 times as on March 31, 2023, compared to 8.43 times as on March 31, 2022. In H1 FY2024, on a standalone basis, the gearing remained at 0.95 times with interest coverage of 4.26 times and total debt/OPBITDA at 3.65 times.

Project execution and commercialisation risks pertaining to ongoing capex plan under Best Value Chem Specialities Limited (BVCSL) - On a standalone basis, the company had incurred a capex of ~Rs. 100 crore in FY2023. It plans to incur around Rs. 30-crore capex in FY2024 for automation and addition of new product lines. The capex in FY2023 did not lead to any major increase in capacity, with the maximum production capacity at ~18,000 MTPA, but focused on improving cost efficiency. BVCSL, a wholly-owned subsidiary of BVCPL, is in the midst of a capex cycle. It will be incurring around Rs. 415 crore {excluding ~Rs. 46-crore land cost and Rs. 25 crore of GST savings (under EPCG license)}, of which around Rs. 110 crore has already been incurred. The capex will enhance BVCPL's manufacturing capacity for existing products and increase the share of value-added products in the healthcare and the personal care segments. The capex will be funded in a debt equity ratio of ~50:50 and is expected to be commissioned by the end of FY2024.
BVCPL is exposed to project execution and commercialisation risks. The timely completion of the project within the budgeted outlay and a successful ramp up of the operations will remain the key monitorables, going forward.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by expected net cash accruals of ~Rs. 55-65 crore in FY2024, against scheduled debt obligations of ~Rs. 38 crore each in FY2024 and FY2025. The company's free cash flows remained negative in the last couple of fiscals, primarily because of incremental working capital requirements and capex outgo. The company has a consolidated capex plan of ~Rs. 440 crore for the near term, which would be funded through a mix of debt, equity infusion by Premji Invest and internal accruals. Moreover, the average working capital utilisation (total limits- Rs. 245 crore) for the 12-month period ended August 2023 remained at ~67%, providing a cushion of undrawn limits of ~Rs. 75-80 crore.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if there is a significant scaling up of operations along with a diversification of the product and customer mix and a sustained improvement in profitability. The outlook may also be revised to Stable if there is a significant improvement in the company's credit profile.

Negative factors – Pressure on BVC's ratings could arise if there is any significant decline in revenues or a material deterioration in margins on a sustained basis. A higher-than-anticipated debt-funded capex may also lead to a downgrade. Any time/cost overruns and/or slower-than-expected ramp up of the upcoming capacity under BVCSL, resulting in lower-than-anticipated cash generation, could also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Best Value Chem Private Limited. As on March 31, 2023, the company had two wholly-owned subsidiaries that are enlisted in Annexure II

About the company

BVCPL, incorporated in 1996, is engaged in the business of manufacturing aroma chemicals or fragrance and flavour ingredients. The products are being supplied to some of the largest international fragrance and flavour houses, such as Firmenich SA (Switzerland), International Flavours & Fragrances (IFF; USA) and Givaudan SA (Switzerland), in addition to others who formulate and blend various chemicals to form compounds, as per the requirements of the end-user industries. The end use is in the manufacture of fragrances (fine fragrances, fabric care, home care and hair care) and flavours (savoury products, beverages, sweets and dairy products). At present, the company operates from two manufacturing units – Karakhadi (owned) and Moxi (leased), located near Vadodara in Gujarat. The units have a combined installed capacity to manufacture 17,216 MTPA of fragrance and flavour ingredients. The company was promoted by Shaju C. O., the key managerial personnel, and Mr. Sanjay Patel, along with his family and friends. On June 29, 2020, PI OPPORTUNITIES FUND-I, an AIF of Premji Invest, acquired ~95% stake in the company from Sanjay Patel and family. Mr. Shaju C. O, the CEO-cum-shareholder of the company, has continued with the company as CEO with a 5% stake (from the earlier 9%).

Key financial indicators (audited)

	FY2022	FY2023	H1FY2024*
Operating income	601.8	701.1	365.3
PAT	15.8	39.0	16.2
OPBDIT/OI	5.3%	13.6%	11.1%
PAT/OI	2.6%	5.6%	4.4%
Total outside liabilities/Tangible net worth (times)	2.5	1.4	1.4
Total debt/OPBDIT (times)	8.4	3.1	3.7
Interest coverage (times)	3.7	4.4	4.3

*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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2023 (Rs. crore)	Date & rating in	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 15,2023	Dec 22,2022	Oct 07, 2021	Aug 28, 2020
1	Term loan	Long Term	150.45	93.8	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Working capital	Long Term/ Short Term	224.00	-	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-
3	Working capital	Long Term	-	-	-	-	-	[ICRA]A+ (Stable)
4	Unallocated limits	Short Term	-	-	-	-	-	[ICRA]A1
5	Unallocated limits	Long Term/ Short Term	15.55	-	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term/Short-term –Working capital	Simple
Long-term/Short-term – Unallocated	NA

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	**Term loan**	FY2021	NA	FY2028	150.45	[ICRA]A (Negative)
NA	**Working capital**	-	NA	NA	224.00	[ICRA]A (Negative)/ [ICRA]A2+
NA	**Unallocated**	-	NA	NA	15.55	[ICRA]A (Negative)/ [ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Best Value Organics Private Limited	100.0%	Full Consolidation
Best Value Specialties Private Limited	100.0%	Full Consolidation

Source: *Company*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 12 4454 5304
sabyasachi@icraindia.com

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

Varun Gogia
+91 124 4545 319
varun.gogia1@icraindia.com

Kushal Shah
+91 79 4027 1527
kushal.shah@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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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