April 26, 2024

Vision Products Private Limited: Long-term rating downgraded & short-term rating reaffirmed and removed from watch; Negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based – Cash credit	27.00	27.00	[ICRA]B+; downgraded from [ICRA]BB-; removed from rating watch with developing implications; Negative outlook assigned
Short term – Non-fund based – Letter of credit	6.50	6.50	[ICRA]A4; reaffirmed and removed from rating watch with developing implications
Total	**33.50**	**33.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating revision for the bank lines of Vision Products Private Limited (VPPL/the company) factors in the significant moderation in the liquidity position of the company, driven by the delay in the receipt of the insurance claim for the fire incident at the company's Padra unit in March 2023. While the company expected to receive a part of the insurance claim in September 2023, it is now likely to be received in June 2024. In the interim, the company has managed its cash flows by stretching the payments to its creditors, some of them being related parties. Any further delay in the receipt of the insurance proceeds will impact the credit profile negatively and put significant stress on the debt servicing capabilities of the company.

The ratings continue to factor in the extensive experience of the promoters in the chemical industry and its established relationships with key clients. The ratings also factor in the company's increased scale of operations over the past years, supported by the commissioning of the Dahej plant, although the fire incident at the Padra unit will limit the incremental growth.

The ratings are constrained by the disruption in VPPL's operations after its manufacturing facility at Padra, Gujarat, had to be shut down due to a fire accident on March 05, 2023. The plant and the inventory were severely damaged in the fire. The company is in the process of raising insurance claims pertaining to the inventory and the fixed assets damaged in the incident. The company's weak capitalisation and debt coverage indicators along with a stretched liquidity position will also weigh on the ratings. Stiff competition due to the fragmented industry structure, vulnerability to regulatory risks and the susceptibility of its profitability to volatile raw material prices and foreign exchange fluctuation risk are the other concerns.

The Negative outlook on the long-term rating reflects the expected moderation in the company's liquidity position and overall credit profile till it receives the insurance claim proceeds.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in chemical industry – VPPL's promoters have a long and established track record in the chemical industry. Mr. Rajesh Mehta has been engaged in manufacturing and supplying chemicals for the last 40 years, transitioning from trading to manufacturing chemicals in 2005.

Increasing scale of operations, moderate profitability – VPPL's scale of operations has been increasing over the last five years. However, the revenues are expected to grow to Rs. 225 crore in FY2024. The capacity ramp-up in the new facility has been impacted by liquidity issues, resulting in lower-than-expected revenues. The profitability is expected to remain modest at ~3.5% in FY2024. At present, the company in lieu of getting an extended credit period has been paying higher price to its suppliers (~2-3% higher), which has impacted the operating profits.

Established and strong clientele - VPPL supplies resins to some of the largest paint companies like JSW Paint Private Limited ([ICRA]BBB (Stable)/ [ICRA]A3+), Berger Becker Coatings Private Limited, Nippon Paints (India) Private Limited, PPG Asian Paints Private Limited and Kansai Nerolac Paints Limited. VPPL has established long-term relationships with most of its customers and receives a large number of repeat orders from its existing customers.

Credit challenges

Moderation in credit profile owing to fire at Padra unit – In March 2023, there was a fire accident at the company's manufacturing facility at Padra, leading to considerable damage to the whole plant along with the inventory. The ratings, however, take cognisance of the insurance policy available with the company. The company is currently in the process of filing an insurance claim for the loss of inventory worth Rs. 37 crore along with a fixed asset insurance claim of ~Rs. 48 crore. The loss of inventory has stretched the company's liquidity as the cash accruals are just adequate to meet the debt servicing requirements, while the cushion in the working capital limits moderated significantly. As a result, the overall credit profile has moderated sharply.

The company's capital structure moderated with an adjusted gearing of 3.87 times (Prov.) as on January 31, 2024, against 3.54 times as on March 31, 2023 due to higher total debt and lower profitability. The debt rose on account of higher utilisation of the working capital limits on the back of the increased scale of operations and delay in insurance claims. The debt coverage indicators remained moderate in 10M FY2024 with total adjusted debt/OPBITDA of 8.15 times as on January 31, 2024, and interest coverage ratio of 1.16 times.

Stiff competition and exposure to regulatory risk - The chemical market in India is highly fragmented with the presence of several small and large players in the organised and unorganised segments. However, the company mitigates the competitive risk to an extent due to better quality products and its strong relations with customers. The chemical industry attracts considerable attention on issues related to air/water pollution. The implementation of stringent pollution control norms led to the operational closure of many small players that could not meet the control standards. Accordingly, VPPL's operations remain exposed to any unfavourable regulatory (environmental) changes.

Profitability exposed to volatility in raw material prices and foreign exchange fluctuation risk - VPPL's profitability is susceptible to the volatility in the prices of its key raw materials as majority of these are derivatives of crude oil, the prices of which remain volatile. Thus, the margins remain vulnerable to the fluctuation in raw material cost. Though the company tries to pass on the price volatility to the end-users, any adverse fluctuation in the prices may put pressure on the profitability. The business operations of VPPL involve both exports and imports, resulting in sales realisation and cash outflow in foreign currency. However, being an importer and exporter, the foreign currency risk is partially mitigated through a natural hedge and partially through its hedging policy.

Liquidity position: Stretched

VPPL's liquidity position is expected to remain stretched, given the low free cash balance and nearly fully utilised working capital limits. Going forward, the cash accruals are expected to remain tightly matched with the scheduled debt repayment in FY2025 and any further delay in the receipt of insurance claim may adversely impact the company's debt servicing capabilities, unless the promoters provide support in a timely manner.

Rating sensitivities

Positive factors – ICRA could upgrade VPPL's ratings if there is a sustained improvement in the profitability and cash accruals that would boost the liquidity profile. A timely receipt of the insurance claim, resulting in an improvement of the liquidity and overall credit profile may also lead to an upgrade.

Negative factors – VPPL's ratings may be downgraded in case of further delays in receiving insurance claims, thereby putting pressure on the company's liquidity and debt coverage metrics. Further, a sustained decline in revenue and profitability may impact the liquidity and overall credit profile, leading to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

VPPL was incorporated in 2005 by Mr. Rajesh Mehta and Mr. Nihar Mehta. VPPL is engaged in the manufacturing and supply of synthetic resins and gums. The company's products include alkyd resins like long oil alkyd resin, medium oil alkyd resin, short oil alkyd resin, chain stop alkyd resin, reactive and non-reactive polyamide, saturated polyester resin, acrylated and styrenated resins, urethaneted alkyd resin, acrylic resin (thermoplastic and thermosetting resin) and amino resins. Other products include rosin-modified phenolic and maleic resin, fatty acids and glycerine, linseed oil, refined oils, stand oils and castor derivatives. The products find application in coating for the automotive industry, home appliances, industrial machineries, OEMs and paint industry.

Apart from India, VPPL exports its products to more than 15 countries, including New Zealand and Ecuador. VPPL's manufacturing plant is at Padra (Vadodara), with an installed capacity of 1,500 tonnes/month as on March 31, 2022. Further, VPPL began production from its new plant at Dahej, Gujarat, from February 2023. The company's Padra plant was damaged in a fire incident in March 2023 and the company does not plan to restore the plant to its original capacity. VPPL follows stringent standards and has been certified ISO 14001:2015 for environmental management and has an ISO 45001:2018 certification for occupational health and safety.

Key financial indicators (audited)

	FY2022	FY2023	10M FY2024*
Operating income	170.5	225.7	187.2
PAT	2.3	0.0	-1.6
OPBDIT/OI	4.4%	2.7%	3.0%
PAT/OI	1.3%	0.0%	-0.8%
Total outside liabilities/Tangible net worth (times)	6.8	7.9	8.7
Total debt/OPBDIT (times)	8.7	12.0	11.4
Interest coverage (times)	2.7	1.4	1.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore PAT: Profit after tax; 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 rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 26, 2024	Sep 01, 2023	-	-
1	**Cash credit**	Long term	27.00	-	**[ICRA]B+ (Negative)**	**[ICRA]BB-; ratings watch with developing implications**	-	-
2	**Letter of credit**	Short term	6.50	-	**[ICRA]A4**	**[ICRA]A4; ratings watch with developing implications**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Short - term – Non-fund based – 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]B+ (Negative)
NA	**Letter of credit**	NA	NA	NA	6.50	[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

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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.

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