

October 24, 2024

Best Value Chem Private Limited: Ratings reaffirmed and outlook revised to stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	150.45	124.01	[ICRA]A(Stable); reaffirmed; outlook revised to Stable from Negative
Long term/Short term - Working capital facilities	224.00	265.99	[ICRA]A(Stable)/[ICRA]A2+; reaffirmed; outlook revised to Stable from Negative
Long term/Short term – Unallocated limits	15.55	0.00	-
Total	390.00	390.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook to Stable from Negative for the ratings assigned to the bank lines of Best Value Chem Private Limited (BVCPL/ the company) factors in the advance stage of completion of the ongoing capacity expansion in the subsidiary company i.e. BV Specialties Private Limited (BVSPL), which is expected to result in a healthy ramp-up in the scale of operation and profitability on a consolidated basis.

BVCPL is undertaking a capex programme under its subsidiary with a total capital outlay of Rs. 550-555 crore and the plant is expected to become operational by the end of November 2024. The company is funding the capex by availing a term debt of Rs. 240 crore, while ~Rs. 200 crore will be infused as equity by Premji Invest (PI) and the remaining will be from the internal accruals of BVCPL. While ICRA expects the operating profit to improve in FY2025 vis-à-vis FY2024, the overall credit metrics will remain subdued and will witness a gradual improvement post the ramp-up of production at the new facility.

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 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 the 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.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its management in the aroma chemical industry and is likely to witness steady revenue growth, backed by stable demand for the existing products and the ongoing capex for capacity enhancement.

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. The company also derives operational synergy 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 58-60% of the company's revenues in FY2024, the risk has moderated from 70-75% earlier due to the addition of new customers.

Credit challenges

High product concentration risk - BVCPL's revenue rose ~8% in FY2024. However, the revenue remains exposed to high product concentration risk with its top six products contributing to 60-62% of the total revenue in FY2024, though the concentration moderated from 80-85% earlier. While the company is operating at optimum capacity utilisation levels (~100% in FY2024) at present, the product mix is expected to improve in the near term with the launch of value-added products from the upcoming capacity under the subsidiary. 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 the 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. Its key raw materials are crude oil derivatives, which are volatile in nature. Moreover, export sales contribute to 70-75% 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 FY2024, the operating margins moderated to 10.5% in FY2024 compared to 13.6% in FY2023 as freight costs rose on account of the Red Sea crisis in Q4 FY2024 and increase in job work charges. The job work charges were also higher due to delay in completion of the capex/project because of which the company had to outsource some of the orders which it had initially planned to execute in-house. In 5M FY2025, the operating margin improved to 14.1% on account of volume growth and change in the product mix (increased share of speciality products). 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 have remained subdued because of the debt availed for the ongoing capex plan for setting up a new capacity under BVCSL. The leverage and coverage indicators were muted with TD/OPBDITA moderating to 6.3x as on March 31, 2024, against 3.1x at the end of FY2023 as the company availed long-term debt for the capex execution while the operating profit also declined. The interest coverage ratio was ~3.8x in FY2024 against 4.4x in

FY2023. While the project cost increased due to change in scope and design, the incremental project cost has been funded by Rs. 100 crore of equity infusion by Premji Invest in August 2024. Going forward, the credit metrics are likely to improve gradually, given the expected ramp-up of the upcoming capacity under BVCSL and the scheduled repayment of debt.

Project ramp-up risk for the upcoming plant under Best Value Chem Specialities Limited (BVCSL) – The company is setting up a new capacity of value-added aroma chemical products under its subsidiary BVCSL with a total capital outlay of ~Rs. 550, funded by Rs. 200 crore of equity infusion by Premji Invest, Rs. 240 crore of term debt and the remaining through unsecured loans provided by BVCPL. The project is expected to start commercial production in November 2024. While the project is starting production, the company’s operations will remain exposed to ramp-up risks. The ramp-up of the plant’s production, revenue and profitability will remain a key monitorable, going forward.

Liquidity position: Adequate

The company’s liquidity position is adequate, supported by expected net cash accruals of ~Rs. 85-90 crore in FY2025, against scheduled debt obligations of ~Rs. 49-51 crore each in FY2025 and FY2026. The company is nearing the completion of its major capex plans and in the near term will incur maintenance capex, thereby supporting the liquidity position. Moreover, the average working capital utilisation (total limits- Rs. 245 crore) for the 12-month period ended July 2024 remained at ~71%, providing cushion in undrawn limits.

Rating sensitivities

Positive factors – The rating may be upgraded 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, leading to an improvement in the leverage and coverage metrics.

Negative factors– Pressure on BVC’s ratings could arise if there is any significant decline in revenues, or if there’s a subdued ramp-up in the production of the upcoming plant under BVCSPL, or if there’s a material deterioration in the margins on a sustained basis. A higher-than-anticipated debt-funded capex may also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
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, 2024, 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 (savory 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 a ~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 its CEO with a 5% stake (from the earlier 9%).

Key financial indicators (audited)

	FY2023	FY2024	5MFY25*
Operating income	701.1	757.2	421.1
PAT	39.0	29.3	24.3
OPBDIT/OI	13.6%	10.5%	12.7%
PAT/OI	5.6%	3.9%	5.8%
Total outside liabilities/Tangible net worth (times)	1.43	2.20	1.79
Total debt/OPBDIT (times)	3.05	6.26	4.33
Interest coverage (times)	4.35	3.83	6.22

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

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)	Date & rating in	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				24-Oct-24	Nov 15,2023	Dec 22,2022	7-Oct-21
1	Term loan	Long Term	124.01	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
2	Working capital	Long Term/ Short Term	265.99	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1
5	Unallocated limits	Long Term/ Short Term	0.00	-	[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

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	124.01	[ICRA]A (Stable)
NA	Working capital	-	NA	NA	265.99	[ICRA]A (Stable)/ [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

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