January 9, 2025

Vasant Chemicals Private Limited: Ratings upgraded to [ICRA]BBB+ (Stable)/[ICRA]A2; removed from Rating Watch with Developing Implications and Stable 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	33.50	33.50	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB and removed from Rating Watch with Developing Implication; Stable outlook assigned
Long term – Fund based – Term loans	26.50	32.85	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB and removed from Rating Watch with Developing Implication; Stable outlook assigned
Short term – Non-fund based limits	7.25	7.25	[ICRA]A2; upgraded from [ICRA]A3+ and removed from Rating Watch with Developing Implication
Long term/Short term – Unallocated	10.75	4.40	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB/[ICRA]A3+ and removed from Rating Watch with Developing Implication; Stable outlook assigned
Total	**78.00**	**78.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA had earlier placed the ratings of Vasant Chemical Private Limited's (VCPL) on Rating Watch with Developing Implications after International Chemical Investors Group (ICIG) completed the acquisition of a majority stake in Vasant Chemicals Private Limited (VCPL). ICRA has now removed the ratings from Rating Watch with Developing Implications, following greater clarity on the integration plans. VCPL is set to be integrated into the WeylChem Group, the fine and specialty chemicals platform of the ICIG Group.

The ratings upgrade considers an improvement in VCPL's financial performance with a healthy improvement in the profit margins in H1 FY2025, aided by a rise in the export of high-margin catalyst chemicals. ICRA expects the healthy operating profit to sustain in the medium term, supported by healthy export demand for its high-margin products. Further, VCPL's association with the WeylChem Group, the major offtaker of the catalyst segment chemicals, is likely to support a steady volume offtake in the medium term. Also, VCPL's capital structure remains comfortable with improved debt coverage indicators.

The ratings continue to draw comfort from the promoter group's experience in the speciality chemicals industry and VCPL's reputed customer profile, which reduces the counterparty credit risk. The ratings also consider VCPL's supply agreements with key customers, which protect the gross margins to an extent as they provide price variations arising out of volatility in raw materials prices and exchange rate fluctuations.

The ratings are, however, constrained by the moderate scale of operations and the high product and customer concentration risk. This is mitigated by the strong credit profile of the clients, repeat orders and the long-term supply agreements with major clients. The ratings also consider the moderately high working capital intensity of the business due to high inventory and debtors.

The Stable outlook on the long-term rating of [ICRA]BBB+ reflects ICRA's belief that VCPL is likely to sustain its operating metrics, thereby maintaining its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile – VCPL's financial risk profile remains comfortable with the increase in profitability in FY2024 and H1 FY2025. The improved profitability reduced the reliance on working debt in 8M FY2025, thereby strengthening the capital structure and debt protection metrics. The gearing remained comfortable at 0.5 times as on September 30, 2024, and the interest coverage was strong at 10.0 times for H1 FY2025. The capital structure and debt protection metrics are likely to be comfortable in the medium term, driven by healthy profit from the high-margin export products.

Established track record in chemicals industry– VCPL has an established track record of more than three decades in the chemicals industry. It used to manufacture dye intermediates before the unit was sold to Deepak Nitrite Ltd. in 2004. VCPL started manufacturing speciality chemicals and pharmaceutical intermediates in 2004 and has two manufacturing units at Jeedimetla in Hyderabad and Atchutapuram in the Visakhapatnam district of Andhra Pradesh. Further, VCPL is set to be integrated into the WeylChem Group, the fine and specialty chemicals platform of the ICIG Group, after the latter completed the acquisition of a majority stake in VCPL. Synergies from WeylChem's experience in the chemical industry and the access to its clientele should help VCPL scale up its operations over the long term.

Reputed clientele reduces counterparty credit risk – VCPL's customer profile remains strong, comprising reputed players in the chemical and pharmaceutical industry, including Weylchem Catexel GMBH, Arkema UK Ltd, Henkel Global Supply Chain B.V., Malladi Drugs and Pharmaceuticals Limited, etc. The company's established relationships with customers have resulted in repeat orders over the years and mitigate the counterparty credit risk. Further, the company has supply agreements with its key customers which have been periodically renewed over the years, reflecting positively on VCPL's track record and its relationships with the customers. Moreover, the contractual agreements protect the gross margins to an extent from the price variations arising out of volatility in the prices of key raw materials and exchange rates beyond an agreed variance.

Credit challenges

Moderate scale of operations– VCPL's operating income (OI) declined to Rs. 117.1 crore in FY2024 and 136.1 crore in FY2023 from Rs. 164.0 crore in FY2022 due to subdued offtake from its key customers in Europe. The margins were impacted in FY2023 owing to the reduction in revenues along with high fixed overhead costs.

However, there has been a healthy improvement in H1 FY2025 with the company reporting an OI of Rs. 93.3 crore and it is likely to achieve an OI of more than Rs. 180 crore in FY2025. Further, VCPL's ability to generate commensurate returns from the significant capex undertaken in the past by optimally scaling up its operations through an expanded product portfolio will remain a monitorable.

Moderately high working capital intensity– VCPL's working capital intensity has been in the range of 30-35% in the last three years owing to high inventory and debtors. The company extends a credit period of 60-90 days to its customers and maintains a higher stock of key raw materials

High product and customer concentration – VCPL's product concentration remains high with the top three products contributing ~65% to the total revenues in FY2024. Also, the company has a high customer concentration with the top five customers accounting for ~75% of the total revenues in FY2024. However, the completion of a planned capex in FY2026 along with the successful commercial launch of some of the speciality chemicals will enable the company to diversify its product portfolio and increase the contribution from the new products in the medium term.

Liquidity position: Adequate

The liquidity is adequate, supported by healthy expected cash flow from operations in FY2025 and the buffer available in the working capital limits along with free cash & liquid investments. The average utilisation of the fund-based limits has been moderate at ~55% for the 12 months ended November 2024 due to healthy accruals, driven by an improvement in the operating profits. As on September 30, 2024, VCPL has free cash, bank balance and liquid investments of ~Rs. 11.4 crore. VCPL has repayment obligations of Rs. 4.2 crore in FY2025 and Rs. 6.9 crore in FY2026 which can be comfortably met through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade VCPL's ratings if a sustained increase in its scale of operations amid healthy operating margins results in improvement in the liquidity position while maintaining comfortable debt coverage metrics and capital structure.

Negative factors – The ratings may be under pressure if there is any significant decline in revenues or margins or a deterioration in the working capital cycle, adversely impacting the company's liquidity position and debt coverage metrics on a sustained basis. Specific credit metrics that could lead to a rating downgrade include an interest coverage ratio of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology Chemical Industry Rating Methodology Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of VCPL

About the entity

VCPL was established as a partnership firm by Mr. G. K. B. Chowdhary in 1978 and was later converted into a private limited company in 1988. It was involved in the manufacturing of dye intermediates till 2004, after which the unit was sold to Deepak Nitrite Ltd, and the company started manufacturing speciality chemicals and pharmaceutical intermediates. VCPL's manufacturing units are at Jeedimetla in Hyderabad and APSEZ in Visakhapatnam.

The International Chemical Investors Group (ICIG) of Europe completed the acquisition of a majority stake in VCPL in March 2024. VCPL is set to be integrated into the WeylChem Group, the fine and specialty chemicals platform of the ICIG Group.

Key financial indicators (audited)

	FY2023	FY2024	H1 FY2025*
Operating income	136.1	117.7	93.3
PAT	0.8	4.8	22.8
OPBDIT/OI	5.4%	23.8%	31.7%
PAT/OI	0.6%	4.1%	-
Total outside liabilities/Tangible net worth (times)	1.1	0.9	0.8
Total debt/OPBDIT (times)	10.2	2.4	1.1
Interest coverage (times)	1.0	4.0	10.0

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional;*

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 (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	33.50	09-Jan-2025	[ICRA]BBB+ (Stable)	13-Mar-2024	[ICRA]BBB &;	23- Sep-2022	[ICRA]BBB +(Stable)	01-Jun-2021	[ICRA]A- (Stable)
					30-Oct-2023	[ICRA]BBB (Stable)				
Term loans	Long term	32.85	09-Jan-2025	[ICRA]BBB+ (Stable)	13-Mar-2024	[ICRA]BBB &;	23- Sep-2022	[ICRA]BBB +(Stable)	01-Jun-2021	[ICRA]A- (Stable)
					30-Oct-2023	[ICRA]BBB (Stable)				
Non-fund based facilities	Short term	7.25	09-Jan-2025	[ICRA]A2	13-Mar-2024	[ICRA]A3+ &;	23- Sep-2022	[ICRA]A2	01-Jun-2021	[ICRA]A2+
					30-Oct-2023	[ICRA]A3+				
Unallocated	Long/ Short term	4.40	09-Jan-2025	[ICRA]BBB+(Stable)/ [ICRA]A2	13-Mar-2024	[ICRA]BBB &/ [ICRA]A3+ &;	23- Sep-2022	[ICRA]BBB +(Stable)/ [ICRA]A2	01-Jun-2021	[ICRA]A- (Stable)/ [ICRA]A2+
					30-Oct-2023	[ICRA]BBB (Stable)/ [ICRA]A3+				

& Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Long term – Fund based – Term loans	Simple
Short term – Non-fund based limits	Very 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	Term loan – I	Dec 2021	NA	FY2027	1.8	[ICRA]BBB+(Stable)
NA	Term loan – II	Dec 2020	NA	FY2026	1.27	[ICRA]BBB+(Stable)
NA	Term loan – III	April 2021	NA	FY2029	14.37	[ICRA]BBB+(Stable)
NA	Term loan – IV	Feb 2022	NA	FY2031	4.91	[ICRA]BBB+(Stable)
NA	Term loan – V	Dec 2023	NA	Sep 2031	10.50	[ICRA]BBB+(Stable)
NA	Cash credit	NA	NA	NA	33.50	[ICRA]BBB+(Stable)
NA	Letter of credit	NA	NA	NA	7.00	[ICRA]A2
NA	Bank guarantee	NA	NA	NA	0.25	[ICRA]A2
NA	Unallocated	NA	NA	NA	4.40	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

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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