December 22, 2022

Best Value Chem Private Limited : Ratings reaffirmed and rated amount enhanced; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	55.0	141.50	[ICRA]A+ (Negative); reaffirmed and assigned to enhanced limits; outlook revised to negative from stable
Long term/Short term - Working capital facilities	195.00	248.00	[ICRA]A+ (Negative)/[ICRA]A1; reaffirmed and assigned to enhanced limits; outlook revised to negative from stable
Long term/Short term – Unallocated limits	-	0.50	[ICRA]A+ (Negative)/[ICRA]A1; assigned
Total	250.00	390.00	

**Instrument details are provided in Annexure-I*

Rationale

The outlook for Best Value Chem Private Limited (BVCPL/the company) has been revised to Negative from Stable because of a moderation in its credit metrics owing to a sharp decline in profitability in FY2022, increase in working capital intensity in recent years and higher-than-expected debt-funded capex. While ICRA notes that the sales and margins have witnessed improvement during 8MFY2023, the credit metrics are expected to remain subdued in the near term. Any improvement in the credit metrics will depend on whether the company is able to sustain its profit margins at healthy levels and moderate its working capital intensity. ICRA also takes note of plans to incur greenfield capex under the company's subsidiaries, which may entail large debt-funded capex, although the quantum and funding mix has not yet been firmed up and remains a key monitorable.

The rating reaffirmation considers 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.

The ratings are, however, constrained by the company's high product concentration, although there has been some 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 and are gradually moving the procurement of ingredients to BVCPL to focus on high value-added products/blending. ICRA also notes that the capex incurred by the company in recent period is expected to aid in cost savings and support profitability.

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 in the company for the next five to seven years. The presence of the investor provides BVCPL strong financial flexibility to raise capital to meet its capital expenditure and working capital requirements. Moreover, the company also derives some 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 customer base of the company comprises reputed and globally leading 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 ~60% of the company's revenues in FY2022, it has moderated from ~70-75% earlier due to the addition of new customers.

Credit challenges

High product concentration risk - BVCPL's revenue increased by ~31% in FY2022. However, the revenue remains exposed to high product concentration risk with its top six products contributing to ~60-65% of the total revenue in FY2022, though the concentration moderated from ~80-85% earlier. While the company is currently operating at optimum capacity utilisation levels (96% in FY2022), the product mix is expected to improve in the near term with the launch of 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 the repeat orders from its customers/competitors reflect 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 ~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 as well as foreign currency denominated debt. Nonetheless, the profit margins have remained volatile in the past as the sales contracts are fixed-price in nature with revisions being carried out bi-annually, and the raw material prices are revised every quarter. In FY2022, BVC reported a sharp moderation in operating margins to~5% against ~10% in FY2021 on account of higher freight expenses and job work costs. However, there has been recovery in the profit margin in 8MFY2023.

Moderation in credit metrics –BVCPL's credit metrics moderated in FY2022 (consolidated basis) due to a dip in profitability as well as increase in debt levels to ~Rs.264 crore as on March 31, 2022 from Rs. ~141 crore as on March 31, 2021, mainly because of an increase in the working capital intensity and higher term debt availed for project capex (including a short-term NCD extended by promoters for land acquisition). The gearing and TD/OPBITDA increased to 2.0 times and 8.4 times, respectively, as on March 31, 2022, from 1.2 times and 3.0 times, respectively, as on March 31, 2021. Further, the coverage indicators also moderated with interest coverage of 3.6 times and NCA/TD of ~11% in FY2022 compared with 14.3 times and 28%, respectively, in FY2021. During 8M FY2023 (standalone), due to improvement in profitability there has been some improvement in credit metrics although they remain subdued.

Challenges associated with large, planned capex and associated returns - BVCPL is exposed to the risks associated with the stabilisation and timely completion of its planned expansion project, without any significant cost and time overruns. The company is in midst of a debt-funded capex cycle and on a standalone basis incurred around Rs. 73-crore capex in FY2022 and plans to incur ~Rs. 100 crore in the near term, to be funded through a mix of internal accruals and term loans. The capex will be towards adding in-house process capacities, automation, sewage plant as well as setting up an R&D centre. The R&D capex will not result in major capacity addition, but will help control costs by doing processes in-house, which were earlier done on job work basis, and support the company's ability to add new products Further, the company has formed two new subsidiaries to set up greenfield projects, which will entail large debt-funded capex, although the quantum and funding mix has not yet been firmed up. ICRA will be monitoring the developments.

Liquidity position: Adequate

The liquidity position of the company is adequate, supported by expected net cash accruals of ~Rs. 60-70 crore in FY2023, against scheduled debt obligations of ~Rs. 26 crore in FY2023. The company's free cash flows remained negative in the last two-three fiscals primarily because of incremental working capital requirements and the outgo towards capex. Going forward, the company has capex plan of ~Rs. 100 crore in the near term, which would be funded through a mix of debt and internal accruals. Moreover, the average working capital utilisation for the 12-month period ended November 2022 remained at ~80%, providing a cushion of undrawn limits of ~Rs. 35-40 crore.

Rating sensitivities

Positive factors – The rating may be upgraded if there is significant scaling up of operations while diversifying product and customer mix, along with sustained improvement in profitability; the rating may also be upgraded if there is significant improvement in liquidity position

Negative factors – Negative pressure on BVC's ratings could arise if there is any significant decline in revenues or material deterioration in margins on a sustained basis; or higher than anticipated debt-funded capex whereby total debt/OPBIDTA exceeds 2.5 times on sustained basis. Material stake dilution by Premji Invest could also warrant a reassessment of the ratings

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	Consolidated

About the company

BVCPL, incorporated in 1996, is engaged in the business of manufacturing of aroma chemicals or fragrance and flavour ingredients. The products are being supplied to four reputed and largest international fragrance and flavour houses, namely 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 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). The company currently operates from two manufacturing units – Karakhadi (owned) and Moxi (leased), located near Vadodara in Gujarat that 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 a CEO with 5% stake (from the earlier 9%).

Key financial indicators (audited)

BVCPL Consolidated	FY2021	FY2022
Operating income	458.2	601.8
PAT	34.1	16.9
OPBDIT/OI	10.3%	5.3%
PAT/OI	7.4%	2.8%
Total outside liabilities/Tangible net worth (times)	2.1	2.8
Total debt/OPBDIT (times)	3.0	8.4
Interest coverage (times)	14.3	3.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & Rating in FY2020
					Dec 22,2022	Oct 07, 2021	Aug 28, 2020	-
1	Term loan	Long Term	141.50	93.8	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	Working capital	Long Term/ Short Term	248.00	-	[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	0.50		[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	141.50	[ICRA]A+ (Negative)
NA	**Working Capital**	-	NA	NA	248.00	[ICRA]A+ (Negative)/[ICRA]A1
NA	**Unallocated**	-	NA	NA	0.50	[ICRA]A+ (Negative)/[ICRA]A1

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 Limited	100.0%	Full Consolidation
Best Value Specialties Limited	100.0%	Full Consolidation

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About ICRA Limited:

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