

October 30, 2023

Vasant Chemicals Private Limited: Ratings downgraded to [ICRA]BBB(Stable)/[ICRA]A3+

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) downgraded from [ICRA]BBB+(Stable)
Long term fund-based term loan	35.72	26.50	[ICRA]BBB(Stable) downgraded from [ICRA]BBB+(Stable)
Short term non-fund based	7.25	7.25	[ICRA]A3+ downgraded from [ICRA]A2
Long term/Short term unallocated	1.53	10.75	[ICRA]BBB(Stable)/[ICRA]A3+ downgraded from [ICRA]BBB+(Stable)/[ICRA]A2
Total	78.00	78.00	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the ratings factors in the moderation in Vasant Chemicals Private Limited's (VCPL) financial performance in FY2023 due to reduced revenues and earnings. VCPL's operating income declined to Rs. 136.1 crore in FY2023 from Rs. 164.0 crore in FY2022 and is likely to moderate in FY2024 too 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. Lower margins moderated the coverage indicators in FY2023. ICRA notes that despite a pick-up in margins in H1 FY2024, the financial profile will remain under pressure in FY2024 as well.

Further, VCPL's ability to generate commensurate returns from the significant capex undertaken in the past by optimally scaling up its operations remains to be seen. Also, VCPL has additional capex plans in the near to medium term, to be funded through a mix of debt and internal accruals, impacting the company's liquidity and financial profile. The ratings are also constrained by high product concentration risk with the top three products accounting for ~61% of its revenues in FY2023. The customer concentration risk is also high with the top five customers accounting for ~76% of the revenues in FY2023. The risk is mitigated by the strong credit profile of the clients with repeat orders. The ratings also consider the moderately high working capital intensity of the business due to high inventory and debtors.

The ratings, however, positively factor in VCPL's comfortable capital structure. The ratings continue to draw comfort from the promoters' experience of more than three decades in the speciality chemicals industry and its reputed customer profile, which reduces the counterparty credit risk. The ratings also consider VCPL's long-term supply agreements with key customers, which protect the gross margins to an extent as they provide for price variations arising out of volatility in raw materials prices and exchange rate fluctuations.

The Stable outlook on the long-term rating of [ICRA]BBB reflects ICRA's belief that VCPL will benefit from the extensive experience of its management and the established relationships with its customers.

Key rating drivers and their description

Credit strengths

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, Hyderabad, and Atchutapuram, Visakhapatnam district, Andhra Pradesh.

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 established relationships with customers. Moreover, the contractual agreements protect the gross margins to an extent as they provide for price variations arising out of volatility in the prices of key raw materials and exchange rate fluctuations beyond an agreed variance.

Comfortable capital structure – The company's financial risk profile is characterised by a comfortable capital structure. Although the debt-funded capital expenditure in FY2023 and H1 FY2024 put some pressure on the capital structure, it continues to be comfortable with the gearing at 0.7 times as on September 30, 2023.

Credit challenges

Moderate scale of operations – VCPL's operating income declined to Rs. 136.1 crore in FY2023 from Rs. 164.0 crore in FY2022 and is likely to moderate in FY2024 too 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. Lower margins moderated the coverage indicators in FY2023. Further, the company's key customers are based out of Europe. Hence, the current market dynamics in Europe is likely to slow down the recovery in demand in the near term.

ICRA notes that despite a pick-up in margins in H1 FY2024, the financial profile will remain under pressure in FY2024 as well. Further, VCPL's ability to generate commensurate returns from the significant capex undertaken in the past by optimally scaling up its operations remains to be seen. Also, VCPL has additional capex plans in the near to medium term, to be funded through a mix of debt and internal accruals, impacting the company's liquidity and financial profile.

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. Further, the average utilisation of the fund-based working capital limits has increased due to high inventory and receivables.

High product and customer concentration – VCPL's product concentration remains high with the top-three products contributing ~61% to the total revenues in FY2023. Also, the company has a high customer concentration with the top five customers accounting for ~76% of the total revenues in FY2023. However, the completion of a planned capex in FY2025 along with successful lab trials and pilot plant trials of some of the speciality chemicals and key raw materials will enable the company to diversify its product portfolio and increase the contribution from new products in the medium term.

Liquidity position: Adequate

VCPL has repayment obligations of Rs. 3.8 crore in FY2024 and Rs. 4.8 crore in FY2025. However, the liquidity is likely to be adequate, supported by expected cash accruals. The average utilisation of the fund-based limits has been high at ~94% for the

12 months ended Sep 2023 due to high inventory and receivable days. As on Sep 30, 2023, VCPL has free cash, bank balance and liquid investments of ~Rs. 6.9 crore.

Rating sensitivities

Positive factors – ICRA could upgrade VCPL’s ratings if the demand revives, resulting in a consistent increase in its scale of operations amid healthy operating margins and improved working capital cycle. Specific credit metrics that could lead to an upgrade include a total debt /OPBDITA of less than 2.8 times on a sustained basis.

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. Specific credit metrics that could lead to a rating downgrade include an interest coverage ratio of less than 3.0 times on a sustained basis.

Analytical approach

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

Note (for analyst reference only):

About the company

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 manufacturing dye intermediates till 2004, after which the unit was sold to Deepak Nitrite Ltd, and the company commenced manufacturing speciality chemicals and pharmaceutical intermediates. VCPL’s manufacturing units are at Jeedimetla, Hyderabad, and APSEZ, Visakhapatnam.

Key financial indicators

	FY2022	FY2023	H1 FY2024*
Operating income	164.0	136.1	58.6
PAT	12.0	0.8	0.7^
OPBDIT/OI	18.2%	5.4%	16.0%
PAT/OI	7.3%	0.6%	1.2%
Total outside liabilities/Tangible net worth (times)	1.2	1.1	1.0
Total debt/OPBDIT (times)	2.6	10.2	3.6
Interest coverage (times)	8.1	1.0	2.9

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

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA’s calculations; ^PBT

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				October 30, 2023	Sep 23, 2022	June 1, 2021	Sep 15, 2020
1 Cash credit	Long Term	33.50	-	[ICRA]BBB(Stable)	[ICRA]BBB+(Stable)	[ICRA]A-(Stable)	[ICRA]BBB(Positive)
2 Term loans	Long Term	26.50	26.50	[ICRA]BBB(Stable)	[ICRA]BBB+(Stable)	[ICRA]A-(Stable)	[ICRA]BBB(Positive)
3 Non-fund based facilities	Short Term	7.25	-	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A3+
4 Unallocated	Long Term / Short Term	10.75	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB+(Stable)/ [ICRA]A2	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB(Positive)/ [ICRA]A3+
5 Fund based	Short-term	-	-	-	-	-	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loans	Simple
Non-fund based facilities	Very Simple
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 1	FY2021	NA	FY2025	1.21	[ICRA]BBB(Stable)
NA	Term loan 2	FY2022	NA	FY2026	2.61	[ICRA]BBB(Stable)
NA	Term loan 3	FY2020	NA	FY2026	2.55	[ICRA]BBB(Stable)
NA	Term loan 4	FY2022	NA	FY2029	14.67	[ICRA]BBB(Stable)
NA	Term loan 5	FY2022	NA	FY2031	5.46	[ICRA]BBB(Stable)
NA	Cash credit	NA	NA	NA	33.50	[ICRA]BBB(Stable)
NA	Letter of credit	NA	NA	NA	7.00	[ICRA]A3+
NA	Bank guarantee	NA	NA	NA	0.25	[ICRA]A3+
NA	Unallocated	NA	NA	NA	10.75	[ICRA]BBB(Stable)/ [ICRA]3+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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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