

## Vasant Chemicals Private Limited

Instrument	Amount In Rs. Crore	Rating Action
Cash Credit Limit	22.00	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Positive)
Term Loan Limit	12.75 (Revised from 17.25)	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Positive)
Letter of Credit Limit	3.00 (Revised from 1.50)	[ICRA]A3+ upgraded from [ICRA]A3
Bank Guarantee Limit	0.25	[ICRA]A3+ upgraded from [ICRA]A3
Forward Contract Limit	1.23 (Revised from 1.00)	[ICRA]A3+ upgraded from [ICRA]A3
Unallocated limits	2.77	[ICRA]BBB (Stable)/ [ICRA]A3+ assigned
<b>Total</b>	<b>42.00</b>	

ICRA has upgraded the long-term rating assigned to the Rs. 22.00 crore<sup>1</sup> cash credit limits and Rs. 12.75 crore (Revised from Rs. 17.25 crore) term loan limits of Vasant Chemicals Private Limited (VCPL/the Company)<sup>†</sup> from [ICRA]BBB-(pronounced ICRA triple B minus) to [ICRA]BBB (pronounced ICRA triple B). ICRA has also upgraded the short term rating assigned to the Rs. 3.00 crore (Revised from Rs. 1.50 crore) letter of credit limits, Rs. 0.25 crore bank guarantee limits and Rs. 1.23 crore (Revised from Rs. 1.00 crore) forward contract limits of VCPL from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A3+ (pronounced ICRA A three plus) and assigned a rating of [ICRA]BBB (Stable)/ [ICRA]A3+ to the Rs. 2.77 crore unallocated limits of VCPL. The outlook on the long term rating is revised to Stable from Positive.

The ratings upgrade primarily factors in the revenue diversification with addition of new products and significant ramp up of operations in the new manufacturing facility at Visakhapatnam in the past 2 years and improvement in operating margins from 13.99% in FY2015 to 17.55% in FY2016 owing to increased price realizations. The ratings continue to factor in established track record of the company in the pharmaceuticals intermediaries and specialty chemical industry; reputed customer profile including Unilever Plc, Cataxel Ltd. (a Unilever company), Zandu Chemicals Limited and Dr. Reddy's Laboratories; and healthy growth in revenues of 38% in FY2016 owing to new product additions and higher off take from key customers. The ratings also consider VCPL's contractual arrangements with its major customers which include assured off-take and price escalation clauses shielding against raw material price and exchange rate fluctuations.

The ratings, however, are constrained by tight liquidity position as indicated by 87% of utilization of working capital limits in the past 15 months owing to higher debtors and inventory levels; high customer concentration risks with top 5 customers accounting for 76% of total revenues in FY 2016 and high product concentration risks with top 3 products accounting for 65% of total revenues in FY 2016. These apart, the ratings are also constrained by low Return on Capital Employed (RoCE) of 12.38% as on FY 2016; further, the debt funded capex of Rs 9.00 crore to be incurred in FY2017 towards capacity addition will constrain the improvement in gearing and coverage indicators in the near term.

Going forward, ability of the company to ramp up sales with addition of new products and clients while managing the working capital requirements efficiently will remain key rating sensitivities from credit perspective.

### Company Profile

Vasant Chemicals Private Limited (VCPL) was established as a partnership firm by Mr. G K B Chowdhary in the year 1978, and was converted into a private limited company in the year 1988. VCPL was engaged in the manufacturing of dye intermediates till 2004, when it sold the unit started manufacturing of specialty chemicals and pharmaceutical intermediates. VCPL's manufacturing units are located at Jeedimetla, Hyderabad and at APSEZ, Visakhapatnam.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.



### Recent Results

For FY 2016, the company reported a profit after tax of Rs. 3.40 crore on an operating income of Rs. 92.59 crore, as against a PAT of Rs 3.28 crore on an operating Income of Rs. 67.30 crore in FY 2015.

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