



Vinati Organics Limited

RATING HISTORY

	Amount Outstanding	Maturity Date	Rating Outstanding	Previous Rating
	(Rs. million)	--	March 2009	--
Long-term, fund based bank limits	972.9	--	LBBB+	--
Short-term, non-fund based bank limits	210.0	--	A2	--

ICRA has assigned an LBBB+ (pronounced L triple B plus) rating, indicating moderate credit quality*, to the fund based term loans and cash credit facilities of Rs. 672.9 million (including the proposed term loans of Rs. 330.0 million) and Rs. 300.0 million, respectively, of Vinati Organics Limited (VINORG). ICRA has also assigned an A2 (pronounced A two) rating, indicating above-average credit quality*, to the non-fund based letters of credit and bank guarantee facilities of Rs. 110.0 million and Rs. 100.0 million, respectively.

The ratings reflect VINORG's leading market position in the business of Isobutyl Benzene (IBB) and 2-Acrylamido 2-Methyl Propane Sulfonic (ATBS / AMPS) acid; technical collaborations with leading institutions and long-term sales arrangements with its customers, who are leading players in the chemical industry. The ratings also factor in the moderate financial risk profile of VINORG and its demonstrated growth in revenues. However, the ratings are constrained by the cyclical nature of the business;

* For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

vulnerability of its profitability to rupee - dollar exchange rate fluctuations and volatility in the prices of raw materials, which are derivatives of crude oil. The ratings are also constrained by muted growth prospects of the IBB business because of its use in the manufacture of bulk drug Ibuprofen -- a mature molecule that faces substitution risk; potential supply glut in India because of backward integration by one of its key customers and project risks associated with its backward integration initiatives.

VINORG has a market share of nearly 60% in the global IBB market, which is estimated at 22,000 metric tons per annum (mtpa). The company also enjoys nearly 20% market share in the specialty monomer ATBS acid together with sodium salt of ATBS (that is, NaATBS), wherein it is one of the top players globally. IBB is used for manufacturing Ibuprofen API, an anti-inflammatory analgesic, and is a core medicine in the World Health Organization's 'Essential Drugs List', which is a list of minimum medical needs for a basic health care system. AMPS is a monomer that is used for creating water-soluble and water-based polymers that are used in a wide range of applications including industrial water treatment, oil field

applications, construction chemicals, hydrogels for medical applications, textile print pastes, adhesives, caulks & sealants, thickeners and paper coatings. VINORG has technology collaborations for process know-how with Institut francais du petrole (IFP), France for IBB and National Chemical Laboratories (NCL), Pune for ATBS.

In 1992, VINORG commenced manufacturing of IBB with an installed capacity of 1,800 mtpa. The company increased its nameplate capacity to 6,000 mtpa in FY 1995, 10,000 mtpa in FY 2006 and 14,000 mtpa in FY 2007 through process improvement and debottlenecking. The other plant manufacturing ATBS commenced operations in FY 2003 with an initial capacity of 1,000 mtpa and increased its capacity to 2,500 mtpa in FY 2007 and 4,000 mtpa in FY 2008. In Q1 FY 2009 (April - June 2008), the company expanded its total capacity to 8,000 mtpa. The increase in capacity was coupled with a steady rise in capacity utilization to 80% in FY 2008 from around 60% in FY 2006 for IBB and to 86% in FY 2008 from nearly 26% in FY 2006 for ATBS.

In the past, the revenue mix of VINORG has witnessed shifts in



terms of product as well as geography. The revenue share of IBB has decreased gradually to 70% in FY 2007 and 67% in FY 2008 from 74% in FY 2006 as compared to increase in the revenue share of ATBS and NaATBS to 25% in FY 2007 and 28% in FY 2008 from 18% in FY 2006. Moreover, export sales have increased to 48% in FY 2007 and 58% in FY 2008 from around 25% in FY 2006 aided by the churn in product-mix and long-term delivery contracts with reputed overseas customers in FY 2007. The underlying tenure of the contracts with buyers such as BASF, USA for IBB and Rohm & Haas, USA for ATBS, providing guaranteed minimum off-takes for a period of two years, is expected to provide stability to the future operating income levels of the company. Further, VINORG supplies to companies such as Nalco Company, USA for ATBS and Shasun Chemicals & Drugs Limited, Chennai and IOL Chemicals & Pharmaceuticals Limited, Ludhiana for IBB. However, IOL Chemical & Pharmaceuticals Limited is in the midst of backward integration to IBB, which is expected to be operational by FY 2011. Consequently, VINORG is likely to witness an excess supply scenario with respect to IBB. The growth prospects of the company could be affected if there is any slowdown in demand for Ibuprofen -- a mature molecule that faces substitution risk.

The profitability of VINORG is sensitive to exchange rate movements because of large exports and imports. There has been an absolute increase in revenues despite the significant depreciation of the Indian Rupee against the US Dollar since the end of Q3 FY 2009 (October - December 2008).

However, the fall in the prices of crude derivatives could cause correction in its product prices.

The operating income of the company has witnessed significant growth at a CAGR of 43.8% in the period from FY 2004 to FY 2008. The turnaround growth was achieved through a combination of capacity expansions, new additions in the product portfolio and large supply agreements with reputed customers. In FY 2008, the export off-takes of IBB increased due to the long-term contract with BASF contributing around Rs. 367.1 million. Moreover, ATBS sales increased by 30% between FY 2007 and FY 2008 and NaATBS sales increased to Rs. 216.6 million from Rs. 57.0 million during the same period. Due to higher realizations from ATBS and NaATBS sales, the margins have increased to 19.6% in FY 2008 from 12.4% in FY 2007. Further, its ROCE has risen to 13.3% in FY 2007 and 40.6% in FY 2008 from 8.4% in FY 2006.

VINORG has been funding its capacity expansions through bank borrowings as well as internal accruals. However, its gearing has remained at moderate levels of 0.82 time in FY 2006, 0.86 time in FY 2007 and 0.80 time in FY 2008. The working capital intensity has been improving to 27.3% in FY 2007 and 20.9% in FY 2008 from 28.9% in FY 2006 owing to year-on-year reduction in working capital balances of debtors, creditors and inventory. Buttressed by the growth in operating income and margins of the company, the gross cash flows have been witnessing a gradual increase year-on-year. However, free cash flows remained under pressure on account of capex and debt repayments. The pay-outs of dividends on equity

shares in FY 2006, FY 2007 and FY 2008 have also brought down the retained cash flows.

VINORG plans to recover Tertiary Butyl Acrylamide (TBA) from the manufacture of ATBS at an estimated capital outlay of Rs. 75.0 million. Currently, the company imports Isobutylene (IB) – a key input for ATBS. In order to improve the value chain of the ATBS process, the company plans to backward integrate by manufacturing IB at a cost of Rs. 400.0 million. These capital expenditure programs are expected to be funded by debt as well as internal accruals; and the funding has not yet been tied up. As the expansions are relatively sizeable, the company remains exposed to project execution risks albeit VINORG has executed a technical know-how agreement with Saipem S.p.A., Italy. However, the future performance of the company is dependent on its ability to maintain its strong position in the IBB market amidst expected bulk capacity additions and successful implementation of its IB project.

Company Profile

Vinati Organics Limited was incorporated in 1992 as a public limited company jointly by the Maharashtra Petrochemical Corporation Limited (MPCL), a Government of Maharashtra undertaking, and Vinati Enterprises Limited promoted by the first generation entrepreneur, Mr. Vinod Saraf. In 1992, VINORG commenced manufacturing of IBB at its plant in MIDC Industrial Area, Mahad (Maharashtra), wherein it has a capacity of 14,000 mtpa. The other plant manufacturing ATBS is located at MIDC Industrial Area, Lote-Parashuram (Maharashtra). The plant



has a name-plate capacity of 8,000 mtpa and commenced operations in FY 2003.

The promoter and his associates with the public and institutional investors have control over 72% of the equity capital and the remaining stake vests

March 2009

Key Financial Indicators

	YTD 31.12.08	YTD 31.12.07	31.03.2008	31.03.2007	31.03.2006
Net Sales (Rs.)	1452.4	1047.7	1463.3	820.5	573.5
Operating Income (Rs.)	1452.4	1047.7	1502.3	838.1	580.1
OPBDIT (Rs.)	250.7	209.1	294.8	103.8	65.0
PAT (Rs.)	129.5	107.5	152.0	35.1	19.5
Equity Capital (Rs.)	98.7	98.7	98.7	65.8	65.8
Net Worth (Rs.)			426.7	299.0	273.1
PAT/Operating Income (%)	8.9%	10.2%	10.1%	4.2%	3.4%
PBIT/Avg.(Total Debt + Net Worth - Capital Work-in-Progress + Deferred Tax Liability) (%)			40.6%	13.3%	8.4%
OPBDIT/Interest and Finance Charges	8.33	8.93	9.04	5.28	5.24
Net Cash Accruals/Total Debt (%)			46.2%	20.7%	16.0%
Total Debt/Net Worth (Times)			0.80	0.86	0.82
Total Debt/OPBDITA (Times)			1.16	2.47	3.46
NWC/OI (Times)			0.21	0.27	0.29
Current Ratio (Times)			1.34	1.15	1.17

Note: Amounts in Rs. Million; OPBDIT: Operating Profit before Depreciation, Interest and Tax; PAT: Profit after Tax; PBIT: Profit before Interest and Tax

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