

Press Release

Vadivarhe Speciality Chemicals Limited

July 25, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE BB**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 17.00 crore bank facilities of Vadivarhe Speciality Chemicals Limited. The outlook is '**Stable**'.

The Nashik-based, Vadivarhe Speciality Chemicals Limited (VSCL) was incorporated in 2009 by Mr. Sunil H. Pophale, Mrs. Meena Sunil Pophale and Mr. Vasant Pandit Jagtap. VSCL is engaged in manufacturing of APIs (Active Pharmaceutical Ingredient), bulk drugs and special chemicals. The raw materials are procured primarily from local market and imported from China. Further, the finished products of VSCL are sold locally and also exported to the countries like UK, USA, Switzerland and Malaysia. The manufacturing unit is located at Nashik (Maharashtra) with an installed capacity of 150 MTPA.

Key Rating Drivers

Strengths

- **Experienced management**

VSCL, previously known as Fem Care Pharma Ltd, was taken over by Dabur India Ltd in 2009. The Chief Promoter of Fem Care Pharma Ltd, Mr. Sunil H. Pophale has retained the chemical division and has been involved in the business of VSCL since 2009. The Promoters, Mr. Sunil H. Pophale, Mrs. Meena Sunil Pophale and Mr. Vasant Pandit Jagtap hold extensive experience of nearly 3 decades in this chemical industry. Acuite believes that the company will benefit from its experienced management which helps the company maintain long standing relations with its customers like Glaxo Smith Kline Pharmaceuticals Ltd, U S Vitamine India Limited, to name a few and suppliers like Gujarat Fluorochemicals Limited, Shivam Petrochem, Indo Amines Limited among others.

- **Comfortable financial risk profile**

The financial risk profile of VSCL is comfortable marked by tangible net worth of Rs.27.27 crore as on 31 March, 2018 as against Rs. 23.37 crore as on 31 March, 2017. Gearing (Debt-equity) stood at 0.35 times as on 31 March, 2018 as against 0.54 times in the previous year. The total debt of Rs.9.66 crore as on 31 March, 2018 consists of long term loan of Rs.4.23 crore, short term working capital limit of Rs.4.08 crore and unsecured loans of Rs.1.35 crore. Interest Coverage Ratio (ICR) stood at 6.07 times in FY2018 as against 13.43 times in FY2017. DSCR stood at 1.68 times in FY2018 as against 2.73 times in FY2017. Total outside liabilities to tangible net worth (TOL/TNW) stood at 0.62 times as on 31 March, 2018 as against 0.95 times as on 31 March, 2017. Acuite believes that the financial risk profile of the company will remain healthy backed by healthy net cash accruals of the company.

Weaknesses

- **Project implementation risk**

The total project cost of VSCL is Rs.8.00 crore which is financed by way of own funds of Rs.3.00 crore and proposed term loan of Rs.5.00 crore. Around 40 percent of the project is completed, however it is exposed to time and costs overrun risk. Acuite believes that the timely completion of the project at the envisaged cost would be a key sensitivity factor.

• Modest scale of operations and decline in profitability

The scale of operations is modest as evident from the revenue of Rs.25.88 crore in FY2018 and Rs.35.27 crore in FY2017. The company operates in a highly fragmented and competitive industry, thus limiting its bargaining power with customers. The operating margin declined to 15.64 percent in FY2018 compared to 30.32 percent in FY2017. In line with the operating margins, PAT margin also declined to 6.82 percent in FY2018 against 17.04 percent in FY2017.

• Moderate working capital nature of operations

VSCL operates in a moderate working capital nature marked by Gross Current asset (GCA) days of 306 for FY2018. This is majorly on account of inventory and debtor days of 52 and 121 respectively for FY2018. Other current assets of Rs.10.19 crore comprises mainly of advances to suppliers and deposits. Acuite believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the Vadivarhe Speciality Chemicals Limited to arrive at this rating.

Outlook: Stable

Acuite believes that VSCL's outlook will remain 'Stable' and the company will benefit over the medium term from its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues, profitability while improving working capital cycle. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or higher than envisaged debt funded capex or working capital requirements deteriorating financial risk profile and liquidity position. .

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	25.88	35.27	26.29
EBITDA	Rs. Cr.	4.05	10.69	7.49
PAT	Rs. Cr.	1.77	6.01	4.29
EBITDA Margin	(%)	15.64	30.32	28.48
PAT Margin	(%)	6.82	17.04	16.33
ROCE	(%)	7.17	28.58	43.10
Total Debt/Tangible Net Worth	Times	0.35	0.54	0.61
PBDIT/Interest	Times	6.07	13.43	6.23
Total Debt/PBDIT	Times	2.34	1.11	1.41
Gross Current Assets (Days)	Days	306	284	257

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.47	ACUITE BB / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+
Term loans	Not Applicable	Not Applicable	Not Applicable	1.53	ACUITE BB / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB / Stable

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About Acuité Ratings & Research:

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