Press Release

Vishakha Polyfab Private Limited

February 04, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 209.74 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable
Short Term Rating	ACUITE A2

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB+**' **(read as ACUITE triple B plus)** and short-term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs. 209.74 Cr bank facilities of VISHAKHA POLYFAB PRIVATE LIMITED. The outlook is **'Stable'**.

Vishakha Polyfab Private Limited (VPPL) is a joint venture between Vishakha Group & Adani Wilmar Limited incorporated in the year 1993. Adani Wilmar Limited (AWL) holds 50 per cent stake and the rest is held by the Doshi Family (Vishakha Group). It is headed by Mr. Jigish Doshi. VPPL is one of the largest high-barrier multilayer flexible film manufacturers in India. It manufactures 3, 5, 7 and 9 layer films, rolls and pouches (printed and plain) that are used for edible oil packaging. The company has a manufacturing facility in Vadsar, Gujarat. It currently has an installed capacity of 16,000 tons. It primarily caters to domestic market and also exports to Europe and USA.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of VPPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operation and extensive experience of management in the industry**

  VPPL was incorporated as a joint venture between the Vishakha Group & Adani Group in 1993. The company is managed by the Doshi family while Adani Wilmar Limited (AWL) holds a significant 50 per cent stake. The day to day operations of the company are headed by Mr. Jigish Doshi. He is supported by an experienced second tier management headed by Mr. Akshat Doshi and Mr. Ankit Doshi. VPPL has strong business linkages with AWL. It caters to 75 per cent of AWL's demand for packaging products and 40 per cent of VPPL's revenue depend on AWL. Some of its other large customers include Cargill India Private Limited and Patanjali Ayurved Limited.

  Acuité believes that the company will continue to benefit from its experienced management, its strong business linkages with AWL and established relationships with key customers.

- **Growing scale of operations**

  VPPL has recorded consistent growth in scale of operations during the period 2017-19. The operating income stood at Rs. 310.47 Cr in FY2019 as against Rs. 254.55 Cr in FY2018 and Rs. 231.20 Cr in FY2017. Further, VPPL has achieved operating income of Rs.244.00 Cr (Provisional) for FY2020 (9M) which gives healthy revenue visibility for FY2020. VPPL has significant expansion plans to cater to increasing demand from its customers in the edible oil processing sector. It has planned an expansion of its existing plant at Vadsar, establishment of a new plant at Kolkata and a JV in Indonesia with Wilmar International.

  Acuité believes, post-completion of the expansion plan VPPL's scale of operations will further improve and the business profile will get further diversified.

- **Stable financial risk profile**
  VPPL's financial risk profile has remained stable marked by tangible net worth of Rs. 111.05 Cr as on 31 March 2019 against Rs. 93.44 Cr as on 31 March 2018. The tangible networth includes unsecured loans from AWL and promoters of Rs. 29.89 Cr as same are subordinated to bank debt. The total debt stood at Rs. 80.33 Cr as on 31 March, 2019 against Rs. 48.18 Cr as on March 31, 2018. This includes Rs. 66.72 Cr working capital loans and Rs. 13.61 Cr of term loans. While its expansion plans have led to increasing debt levels, the gearing stood comfortable at 0.72 times as on March 31, 2019 against 0.52 times as on March 31, 2018. Interest Coverage Ratio (ICR) is comfortable at 4.23 times in FY2019 as against 4.19 times in FY2018. The ICR has improved on account of increase in both revenue and profitability in FY2019. The TOL/TNW stood at 1.25 times as on March 31, 2019 against 1.04 times as on March 31, 2018. The company has planned substantial expansion projects which however, will be partly funded by debt and the rest through its internal accruals.

  Acuite believes VPPL's financial risk profile to remain stable over the medium on account of adequate capitalization in spite of the additional borrowings expected from expansion projects.

Weaknesses

- **Operations are working capital intensive**
  The company has working capital intensive operations as evident from its Gross Current Assets (GCA) of 183 days as on March 31, 2019 as against 167 days as on March 31, 2018. This is primarily on account of high receivable period of 97 days as on March 31, 2019 and 112 days as on March 31, 2018. The inventory holding period stands at 49 days as on March 31, 2019 and 51 days as on March 31, 2018. This makes VPPL significantly dependent on bank borrowing for funding its work capital requirement. This is reflected in the average bank limit utilization level of 95 percent.

- **Susceptibility of raw material prices and fluctuation in foreign exchange rate**
  The major raw materials for VPPL are various types of plastic granules derived from crude oil and the prices of same are highly volatile in nature. Raw material costs account up to 75 percent of VPPL's turnover, hence, any adverse movement in the raw material prices can impact its profitability. VPPL imports around 40 percent of its raw material requirement from Honk Kong, Singapore, and Europe. However, VPPL's foreign exchange fluctuation risk is partially mitigated on account of the natural hedge available due to its export sales.

Liquidity Position: Adequate

VPPL's net cash accruals stood at Rs. 20.2 Cr in FY2019 and is expected to be in the range of ~Rs.24 – 35 Cr for period FY20-FY22 against repayment obligations in the range of ~Rs. 13-18.00 Cr for the same period. The accruals are expected to grow further over the medium term on account of expanding scale of operations. The current ratio has remained moderate at 1.26 times as on March 31, 2019 and 1.35 times as on March 31, 2018. VPPL's operations are working capital intensive and it is dependent on bank borrowings for working capital funding. This is reflected in the average bank limit utilization level of 95 percent. Nevertheless, Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals and the availability of unsecured loans from the promoters.

Rating Sensitivities

- A sustained improvement in the scale of operations while maintaining profitability will be a key monitorable.
- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its promoters' industry experience and the strong client relationships. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any elongation of its working capital cycle owing to expanding revenue and dependency on debt funding, leading to deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	310.47	254.55
Profit After Tax (PAT)	Rs. Cr.	11.86	14.91
PAT Margin	(%)	3.82	5.86
Total Debt/Tangible Net Worth	Times	0.72	0.52
PBDIT/Interest	Times	4.23	4.19

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

Not Applicable

Any other information

None

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
• Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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	28.00	ACUITE BBB+/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB+/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB+/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable
Term Loan – I	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BBB+/Stable
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB+/Stable
Term Loan – III	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB+/Stable

Term Loan – IV	Not Applicable	Not Applicable	Not Applicable	58.87	ACUITE BBB+/Stable
Term Loan – V (ECB)	Not Applicable	Not Applicable	Not Applicable	22.27	ACUITE BBB+/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	29.10	ACUITE A2

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