Press Release

Vipul Organics Limited

February 19, 2021

Rating Assigned

Total Facilities Rated*	Rs.30.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.30.00 Cr. bank facilities of Vipul Organics Limited (VOL). The outlook is **'Stable'**.

Rationale for ratings assigned

The ratings assigned derive comfort from the fairly long track of operations in the dyes and pigment industry, improvement in scale of operations along with profitability over the years followed by moderate financial risk profile of the company. The revenues of the company has witnessed around 8 percent CAGR growth from FY18-20 period. During FY20, the revenues stood at Rs.92.97 Cr. as against Rs.90.44 Cr. majorly on account of increase in demand which was also supported by the commencement of the company's newly set up plant at Tarapur, Maharashtra from January, 20. Despite covid-19 pandemic, the company was able achieve a 4 percent y-o-y growth in revenues which stood Rs.54.62 Cr. in FY21 (till Oct, 20). Further, the operating profit margin of the company has been increasing over the years. In FY20, the EBITDA margin was increased to 10.70 percent as against 7.15 percent in FY19 owing to increase in manufacturing business activities supported by lower raw material prices. However, the rating has been constrained by intensive working capital operations of the company on account of high inventory days.

About the Company

Mumbai based, VOL was incorporated in 1972 as a small venture by Mr. Pravichandra B. Shah which engaged in the manufacturing and trading of pigment powder, pigment dispersion, Dyes and Dyes Intermediates. Later, in the year 1994, the company was converted into public limited company was got listed in Bombay Stock Exchange. Further, Mr. Vipul P. Shah, son of Mr. P. B. Shah who is a chemical engineer by profession joined the company as Managing Director. The company currently has three manufacturing facilities with a total installed capacity of 2,040 MT per annum located at Tarapur, Ambernath and Palghar (Maharashtra).

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Vipul Organics Limited (VOL) and its subsidiary, i.e. Shree Ambika Naturals Private Limited (SANPL). The consolidation is in view of the common management, operating in same line of business and operational synergies between these entities. As of FY20, VOL holds 56.04 percent of equity shares in SANPL. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced Management with established track record of operations**
  The company was established in the year 1972 by Mr. Pravichandra B. Shah which was is engaged in the manufacturing and trading of pigment powder, pigment dispersion, Dyes and Dyes Intermediates. Later in the year 1994, VOL was converted into a public limited company and was listed on the Bombay Stock Exchange. The operations of the company are currently managed by Mr. Vipul P. Shah, son of Mr. P. B. Shah who is a chemical engineer by profession and has more than three decades of experience in the Dyes and Pigments Industry. The top management is ably supported by a well-qualified and experience team of second line of management. The long track record of operations of over three decades coupled with experience of management have helped the company to forge healthy relationships with reputed clients and suppliers across the globe.

Acuité believes that VOL will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Improvement in scale of operations and profitability over the years**

The revenue from operations of the company has witnessed an increase of around 8 percent CAGR in FY2017-2020 period on back of rising demand and increase in scale of production of dyes and pigment products. The revenues increased marginally by around 2 percent y-o-y to Rs.92.25 Cr. in FY20 from Rs.90.01 Cr. in FY19. The increase in revenue from operations was majorly on account of rising demand and commencement of production from its newly set up plant located in Tarapur, Maharashtra. The company caters around 60 percent of its revenues from manufacturing activities and the rest 40 percent is from the trading activities. The company exports around 80 percent of its products to around 55 countries across the globe. Despite covid-19 pandemic in H1FY21, the company was able to achieve around 4 percent y-o-y growth to Rs.54.62 Cr. during April to October, 20 period of FY21.
Further, the profitability of the company has been increasing in last three years. The EBITDA margin has increase from 5.43 percent in FY18 to 7.15 percent in FY19 and to 10.70 percent in FY20. The improvement in margins is mostly on account of increase in the manufacturing business with higher margin compared to the trading business and is also supported by low decline in raw material costs.

Acuité believes that VOL will continue to improve the scale of operations and maintain the profitability margins over the medium term on account of rising demand and increase in production levels.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate tangible net worth, moderate gearing and debt protection metrics. The tangible net worth of the company stood at Rs.31.65 Cr. as on 31 March, 2020 as against Rs.27.78 Cr. in the previous year. In Q1FY21, VOL issued 18,25,000 equity shares worth around Rs.1.83 Cr. to the shareholders of Efferchem Private Limited (EPL) in pursuant to the Scheme of Amalgamation between VOL and EPL. As on 30 Sep, 2020, the total equity share capital of the company stood at Rs.9.55 Cr. The company follows a conservative policy reflected by moderate gearing (debt to equity) of 0.68 time as on 31 March, 2020 compared to 0.70 times same period last year. The interest coverage ratio improved and remained comfortable at 10.89 times for FY20 as against 6.21 times in the previous year. The debt service coverage ratio stood at 3.39 times in FY20 as against 3.37 times in the previous year. However, the total liabilities to tangible net worth (TOL/TNW) deteriorated marginally and stood at 2.00 times as on 31 March, 2020 as against 1.63 times in the previous year.

Acuité believes that the financial risk profile of the company is expected to remain moderate backed by healthy growth in revenues and profitability.

Weaknesses

- **Working capital intensive operations**

The operations of the company are working capital intensive in nature marked by high Gross Current Assets (GCA) of 237 days for FY20 as against 191 days for FY19. This increase in GCA days is majorly on account of increase in inventory and debtor levels to 73 days and 98 days in FY20 compared to 38 and 86 days in FY19, respectively. The increase in inventory levels was on account of high finished good stocks as the company was unable to transit exports in the last 10 days of March, 2020. Subsequently, the creditor days was also increased to 207 days in FY20 compared to 115 days in FY19. However, the average cash credit limit utilization stood moderate at around 55 percent during in last six months ended October, 2020.

Acuité believes that the company's ability to maintain its working capital efficiently will remain a key rating sensitivity.

- **Highly fragmented industry**

The company operates in a highly fragmented chemical industry with the presence of large number of players in the organised as well as unorganised sector. This limits the bargaining power of the company with the customers. However, the longstanding customer relationships of the company with its clients moderates this risk to an extent.

Rating Sensitivities

- Growth in revenues while maintaining profitability margins
- Stretch in working capital cycle and deterioration in liquidity position

Material Covenants
None

Liquidity position: Adequate
The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.6.64 Cr. for FY20 while its maturing debt obligations were Rs.1.92 for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.8.71 Cr. to Rs11.60 Cr. during 2021-23 period against debt repayment obligation of Rs.1.90 Cr. during the same period. However, the company has working capital intensive operations as marked by high GCA days of 237 days as on 31 March, FY20 as against 191 days same period last year. The company maintains unencumbered cash and bank balances of Rs.4.37 Cr. as on 31, March, 20. The current ratio stood moderate at 1.10 times as on 31 March, 20. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Stable
Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	92.25	90.01
PAT	Rs. Cr.	4.62	3.53
PAT Margin	(%)	5.01	3.92
Total Debt/Tangible Net Worth	Times	0.68	0.70
PBDIT/Interest	Times	10.89	6.21

Status of non-cooperation with previous CRA (if applicable)
India Ratings, vide its press release dated 16 Sep 2020 has denoted the rating of VOL as IND BB+/IND A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information
None

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.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
Term Loan	May, 2018	9.00%	Oct, 2025	9.00	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Assigned)

Foreign Bills Purchase/Discount*	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Assigned)
Proposed Foreign Bills Purchase/Discount*	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Assigned)

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