Press Release

Vipul Organics Limited

July 27, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	27.00	-	ACUITE A3 | Reaffirmed
Bank Loan Ratings	3.00	ACUITE BBB- | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	30.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed 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 rating reaffirmation
The rating reaffirmation takes into account increase in VOL's revenue and healthy financial risk profile. It also draws comfort from company's experienced management and established track record of operations. However, the moderation in VOL's operating profitability and high working capital intensive operations acts as a constraining factor for the rating. Ability of the company to maintain its scale of operations while improving its profitability margin or any further deterioration in the working capital cycle will remain a key rating sensitivity factor.

About the Company

Mumbai based, VOL was incorporated in 1972 as a small venture by Mr. Pravichandra B. Shah, is 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 and 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 3120 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 FY22, 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 and 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 five 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.

Healthy financial risk profile

Financial risk profile of VOL is healthy marked by healthy networth, moderate gearing and healthy debt protection metrics. The networth of the company has improved to Rs.51 Cr as on 31 March, 2022 as against Rs.39 Cr as on 31 March, 2021 on account of healthy accretion to reserves and increase in paid up share capital. The gearing (debt-equity) has improved to 0.59 times as on 31 March, 2022 as against 0.72 times as on 31 March, 2021. The gearing of the company is expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.30 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.7 Cr and short term working capital limit of Rs.23 Cr.

The coverage indicators remain healthy despite some moderation on account of significant increase in short term bank borrowings. The interest coverage ratio stood at 10.12 times for FY2022 as against 12.34 times for FY2021. The DSCR stood at 3.31 times for FY2022 as compared to 4.28 times for FY2021. The Net Cash Accruals to Total debt stood marginally lower at 0.41 times for FY2022 as against 0.45 times for FY2021. The Total outside liabilities to Tangible net worth has improved to 1.46 times for FY2022 as against 1.71 times for FY2021.

Acuité believes that the financial risk profile of VOL will remain healthy in near to medium term due to its improving operating performance, low debt levels vis-à-vis healthy tangible net worth and healthy debt protection metrics.

Increase in revenue albeit moderation in profitability

VOL reported revenues of Rs.133 Cr for FY2022 as against Rs.119 Cr in FY2021, a growth of ~12 percent. This has primarily been on account of increased orders from both domestic and exports as well as increasing prices. Going forward the revenue is expected to further increase on the back of stable orders and increasing prices. The company has also increased its installed capacity at Ambernath plant from 360 MT per annum in FY2020 to 1440 MT per annum in FY2022 towards production of its pigment powders and paste due to which the total installed capacity of the company across their three manufacturing facilities has now increased from 2040 MT per annum in FY2020 to 3120 MT per annum in FY2022. However, VOL reported a moderation in profitability. Operating margin of the company got declined to 10.99 percent in FY2022 as against 13.57 percent in FY2021 due to significant increase in the raw material prices and other manufacturing expenses. Further, the net profit margin of the company also declined to 5.23 percent in FY2022 as against 5.77 percent in FY2021 on account of increase in the interest cost.

Since the company has undertaken major capex over the last few years but were not able to take advantage of the increased production capacities due to pandemic and global crisis, hence going forward VOL is expected to improve its operating performance as the full impact of the increased capacities will be visible.

Acuité believes that the ability of the company to maintain its scale of operations while improving its operating profitability in near to medium term will remain a key rating sensitivity factor.

Weaknesses

Working capital intensive operations

The operations of VOL are highly working capital intensive marked by its increase in Gross Current Assets (GCA) of 247 for FY2022 as against 232 days for FY2021. This is primarily on account of high inventory and debtors days which stood at 95 days and 117 days in FY2022 as against 64 days and 111 days in FY2021. Inventory cycle of the company has increased since they had purchased the required raw materials in bulk in order to avoid any supply shortages in the near future from the suppliers and simultaneously, the stock of finished goods have increased in order to readily meet the demand of its customers. Creditors cycle also remained stretched at 166 days in FY2022 as against 158 days in FY2021.

Acuité believes that any further deterioration in VOL's working capital cycle will remain a key monitorable.

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

- Ability to maintain scale of operations while improving profitability margin
- Any further deterioration in the working capital cycle

Material covenants

None

Liquidity position - Strong

VOL has strong liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.7 Cr to Rs.12 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.2 Cr to Rs.3 Cr in during the same period. Going forward, the NCA are expected in the range of Rs.13 Cr – Rs.15 Cr for period FY2023-FY2024 against repayment obligation in the range of Rs.3 Cr – Rs.4 Cr for the same period. The working capital operations of the company are highly intensive marked by its increase in gross current asset (GCA) days of 247 days for FY2022 as against 232 days for FY2021 on account of significant increase in inventory and debtors cycle during the same period. The average bank limit utilization for 6 months' period ended Mar 2022 however stood moderate at ~43 percent. Current ratio stands at 1.35 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.3 Cr in FY2022.

Acuité believes that the liquidity of VOL is likely to remain strong over the medium term on account of healthy cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that VOL will maintain 'Stable' outlook over the medium term on account of its experienced management with established track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	133.20	118.70
PAT	Rs. Cr.	6.97	6.85
PAT Margin	(%)	5.23	5.77
Total Debt/Tangible Net Worth	Times	0.59	0.72
PBDIT/Interest	Times	10.12	12.34

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

India Ratings, vide its press release dated 16 Sep 2021 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.
CRISIL vide its press release dated 30 Sep 2021 has denoted the rating of VOL as CRISIL B/ CRISIL A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Feb 2021	Proposed Cash Credit	Long Term	3.00	ACUITE BBB- | Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BBB- | Stable (Assigned)
	Bills Discounting	Short Term	3.00	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	9.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- | Stable | Reaffirmed
Axis Bank	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 | Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 | Reaffirmed
Bank of Baroda	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 | Reaffirmed
Bank of Baroda	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 | Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.