Press Release
Vipul Organics Limited
August 24, 2023
Rating Reaffirmed

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

Rating Rationale

Acuité has reaffirmed its long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and its 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 takes into consideration the average financial risk profile with modest gearing levels, moderate net worth and comfortable debt protection matrices. The liquidity position of the company remains adequate with steady cash accruals against mature debt obligations. The rating also draws comfort from the established operations with experienced management of the company. The rating also takes into account the revenues of Rs.133.93 Cr. in FY2023 as against Rs.133.20 Cr. in FY2022 reflecting muted YoY growth. Furthermore, the revenues stood at Rs.36.14 Cr. in Q1FY2024 compared against Rs.37.90 Cr. in Q1FY2023. However, the deterioration in profitability of the company during FY 2023 reflected by declining operating profit and profit after tax (PAT) margins. The operating profit margin of the company declined to 7.21 percent in Q1FY2024 compared against 9.39 percent in Q1FY2023 and 10.85 in FY2023 compared against 12.01 percent in FY2022 respectively. This deterioration is primarily due to increased power and employee costs, as well as rising raw material prices. Similarly, the PAT margins declined to 1.42 percent in Q1FY2024 as against 2.79 percent in Q1FY2023 and 3.54 in FY2023 compared against 5.23 percent in FY2022 respectively. The decline is primarily on account of higher interest costs. Furthermore, the rating is constraint on account of working capital intensive nature of operations, exposure to risk related to intense competition.

About the Company

VOL, established in 1972 in Mumbai by Mr. Pravichandra B. Shah as a small venture, is involved in the production and trading of pigment powder, pigment dispersion, Dyes, and Dyes Intermediates. In 1994, the company transformed into a public limited entity and became listed on the Bombay Stock Exchange. The role of Managing Director was assumed by Mr. Vipul P. Shah, a chemical engineer by profession and the son of Mr. P. B. Shah. The company currently operates three manufacturing units situated in Tarapur, Ambernath, and Palghar (Maharashtra), collectively offering a total annual capacity of 3120 MT.

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 FY23, 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

Established in 1972 by Mr. Pravichandra B. Shah, the company is involved in the manufacturing and trading of pigment-related products such as pigment powder, pigment dispersion, Dyes, and Dyes Intermediates. Subsequently, in 1994, VOL underwent conversion into a public limited company and achieved listing on the Bombay Stock Exchange. Presently, the company's operations are overseen by Mr. Vipul P. Shah, a chemical engineer with over thirty years of experience in the Dyes and Pigments Industry, who is the son of Mr. P. B. Shah. The proficient second line of management provides robust support to the top management. The company's lengthy operational history of more than five decades, combined with skilled leadership, has facilitated the establishment of strong global relationships with esteemed clients and suppliers.

Furthermore, the revenues of Rs.133.93 Cr. in FY2023 as against Rs.133.20 Cr. in FY2022 reflecting muted YoY growth. Furthermore, the revenues stood at Rs.36.14 Cr. in Q1FY2024 compared against Rs.37.90 Cr. in Q1FY2023. However, the deterioration in profitability of the company during FY 2023 reflected by declining operating profit and profit after tax (PAT) margins. The operating profit margin of the company declined to 7.21 percent in Q1FY2024 compared against 9.39 percent in Q1FY2023 and 10.85 in FY2023 compared against 12.01 percent in FY2022 respectively. This deterioration is primarily due to increased power and employee costs, as well as rising raw material prices. Similarly, the PAT margins declined to 1.42 percent in Q1FY2024 as against 2.79 percent in Q1FY2023 and 3.54 in FY2023 compared against 5.23 percent in FY2022 respectively. Acuité is confident in VOL's ability to maintain its current business profile, given its established operational track record and experienced management.

Average financial risk profile

The financial risk profile of the company is average marked by moderate net worth, modest gearing and comfortable debt protection metrics. The net worth of the company has declined to Rs.49.62 Cr as on 31 March, 2023 as against Rs.51.19 Cr as on 31 March, 2022 on account of decline in reserves. The gearing (debt-equity) stood modest at 0.63 times as on 31 March, 2023 as against 0.57 times as on 31 March, 2022. The coverage indicators remain comfortable despite some moderation on account of significant increase in short term bank borrowings. The Total outside liabilities to Tangible net(TOL/TNW) worth stood at 1.43 times for FY2023. The debt protection matrices of the company remain comfortable marked by Interest coverage ratio (ICR) of 5.46 times and debt service coverage ratio (DSCR) of 2.16 times for FY2023. The net cash accruals to total debt (NCA/TD) stood at 0.35 times in FY2023.
Going forward, Acuité believes the financial risk profile of the company will remain average on account of steady net cash accruals.

Weaknesses

Working capital intensive operations

The operations of the company are working capital intensive marked by improving in Gross Current Assets (GCA) of 228 for FY2023 as against 242 days for FY2022. The high GCA days is primarily on account of inventory days. The inventory days stood at 108 days in FY2023 as against 96 days in FY2022. 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. Further, the debtor days stood at 93 in FY 2023 as compared to 118 in FY 2022. The stock of finished goods has increased in order to readily meet the demand of its customers. Acuité believes that the working capital operations of the firm will remain at the similar levels over the medium term.

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

Adequate

The company has an adequate liquidity position marked by steady net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals of Rs.11.07 Cr as on March 31, 2023 as against Rs. 3.70 Cr debt obligation over the same period. Moreover, the cash and bank balance stood at Rs. 5.78 Cr for FY 2023. However, the current ratio stood at 1.28 times as on 31 March 2023. Further, the working capital operations of the company are intensive marked improving in Gross Current Assets (GCA) of 228 for FY2023 as against 242 days for FY2022 on account of significant increase in inventory and debtors cycle during the same period. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate net cash accruals against long debt repayments over the medium term.

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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	133.93	133.20
PAT	Rs. Cr.	4.74	6.97
PAT Margin	(%)	3.54	5.23
Total Debt/Tangible Net Worth	Times	0.63	0.57
PBDIT/Interest	Times	5.46	10.12

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

Crisil vide its press release dated 30th Nov 2022, had rated the company to CRISIL B/Stbale/A4; Issuer Not Cooperating.
India Ratings vide its press release dated 9th Sept 2022, had rated the company to BB+/A4; Issuer Not Cooperating.

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity.

Applicable Criteria

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jul 2022	Cash Credit	Long Term	3.00	ACUITE BBB- | Stable (Reaffirmed)
	Bills Discounting	Short Term	12.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Post Shipment Credit	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Packing Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BBB- | Stable | Reaffirmed
Axis Bank	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A3 | Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3 | Reaffirmed
Bank of Baroda	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3 | Reaffirmed
Bank of Baroda	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3 | Reaffirmed

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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.

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