

## Press Release

### Viswaat Chemicals Limited

October 13, 2022

### Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	163.00	ACUITE A-   Stable   Assigned	-
Bank Loan Ratings	67.00	-	ACUITE A1   Assigned
Total Outstanding Quantum (Rs. Cr)	230.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating of **ACUITE A1** (read as **ACUITE A one**) on Rs.230.00 crore bank facilities of Viswaat Chemicals Limited (VCL). The outlook is '**Stable**'.

#### Rationale for rating assigned

The rating assigned factors in the established market position of the company, reputed clientele and extensive experience of the promoters of more than three decades in the chemical industry. The rating also draws comfort from the strong operating performance of the company over the last four years despite the onset of covid-19 pandemic, healthy financial risk profile and adequate liquidity position of the company reflected by its moderate reliance on bank limits. However, the rating is constrained by susceptibility of the profitability to volatility in the prices of raw materials and intense competition marked by fragmented nature of the chemical industry.

#### About the Company

Incorporated in 1996, Viswaat Chemicals Limited (VCL) is a Maharashtra based company engaged in manufacturing of chemicals. The company majorly specialized in surfactants among other chemicals. Chemicals manufactured by the company find its use in around 30 different industries. The company has two manufacturing facilities in Maharashtra and Gujarat. The manufacturing plant in Maharashtra is located at Ambarnath with an annual manufacturing capacity of 39,500 MT. The company also has another manufacturing plant in Dahej, Gujarat with a manufacturing capacity of 51,000 MT. VCL is promoted by Mr. B. Vivek Shetty and Mr. Vinesh Shetty.

#### Analytical Approach

Acuite has taken a standalone approach to arrive at the rating of VCL

#### Key Rating Drivers

## Strengths

### **Extensive experience of the promoters in the chemical industry and established track record of operations of the company**

VCL was established in 1996, thus having an operational track record of over two decades in the chemical industry. The company is promoted by Mr. B. Vivek Shetty and Mr. Vinesh Shetty who have more than two decades of experience in the industry. The operations of the group are managed by its promoters and a qualified and experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the promoters and management has helped the group to establish long and healthy relationships with reputed customers and suppliers over the years. The promoters' industry experience and established brand presence has helped the company to establish longstanding relationships with reputed clientele.

Acuité believes the company will continue to benefit from its established presence in the industry, and the promoter's demonstrated ability to sustain a healthy level of operations across various cycles.

### **Strong operating performance**

The total operating income of VCL has seen a strong growth with a CAGR of 30.39% over the last 3 years. Total operating income of the company stood at Rs.665.25 crore in FY22 as against Rs.362.10 crore in FY21 and Rs.300.85 crore in FY20. Growth seen in the operating income comes at the back of increased demand of surfactants in the industry during and post Covid-19. ~95 percent of the revenue is generated from sale of surfactants and 2.81 percent by specialty chemicals. The share of surfactants in the revenue has seen a steady increase from 70% in FY20 to 95% in FY22. VCL has generated ~Rs. 318.95 crore of revenue till August 22. Further, capacity utilization of the company has also improved. Capacity utilization at the Ambernath plant has been steady at 59% during the last two years and the utilization at the Dahej plant has seen an improvement from 37 percent in FY21 to 55.71 percent in FY22. Operating profit margin of the company is range bound between 9.5-10 percent. Operating profit margin improved by 70 bps at 9.88 percent in FY22 as against 9.18 percent in FY21 and 7.49 percent in FY20. PAT margins also saw an improvement and stood at 5.44 percent in FY22 as against 3.28 percent in FY21 and 0.54 percent in FY20. Improvement in profitability of the company comes at the back of increase in scale of operations.

Acuité believes that the business risk profile of the company is likely to continue to improve on the back of reputed clientele and healthy demand expected over the near to medium term.

### **Healthy financial risk profile**

Financial risk profile of VCL is healthy marked by moderate networth, low gearing and a comfortable debt protection metrics. Tangible Net worth (TNW) of the company stood at 122.68 crore as on 31st March, 2022 as against 87.25 crore as on 31st March, 2021 and Rs. 75.95 crore in FY20. Networth of the company has strengthened over the years on account of accretion of profit to reserves. Gearing of the company stood 0.89 times as on 31st March, 2022 as against 1.14 times as on 31st March, 2021 and 1.23 times in FY20. Gearing of the company has improved from its peak gearing at 1.23 times as on 31st March, 2019 and is likely to improve further in the near to medium term on account of repayment of existing debt obligations and absence of debt funded capital expenditure. Total outside liabilities (TOL/TNW) has seen a consistent decline and stood at 1.52 times as on 31st March, 2022 as against 1.83 times as on 31st March 2021 and 1.90 times in FY20. Net cash accruals to Total Debt (NCA/TD) stood at 0.43 times in FY22 as against 0.22 times in FY21 and 0.10 times in FY20. Debt protection metrics remained comfortable with Debt service coverage ratio (DSCR) at 3.44 times in FY22 as against 2.35 times in FY21 and 2.12 times in FY20. Interest coverage ratio (ICR) stood at 5.85 times as against 3.75 times in FY21 and 2.67 times in FY20.

Acuité believes that the financial risk profile is likely to remain healthy in the absence of any debt-funded capital expenditure and any large deviations in incremental working capital requirements.

## Weaknesses

### **Moderate working capital operations**

Working capital operations of the company are moderate marked by GCA days of 106 days in FY22 as against 139 days in FY21 and 130 in FY20. GCA days are driven by high debtor collection period. While the GCA days of the company are moderate the working capital cycle of the company is low and has seen an improvement from 57 days in FY21 to 48 days in FY22. Raw materials of the company include various types of chemicals like Ethylene Oxide and fatty acids which are majorly procured domestically. Inventory holding period stood at 18 days in FY22 as against 27 days in FY21 and 32 days in FY20. Debtor collection period stood at 67 days in FY22 as against 83 days in FY21 and 71 days in FY20. Creditor days stood at 37 days in FY22 as against 53 days in FY21 and 56 days in FY20.

Acuite believes that the working capital operations of the company will remain moderate over the medium term and will continue to remain a key rating sensitivity.

### **Susceptibility of operating performance to input price volatility and increasing competition**

Ethylene oxide is the major raw material for the company. The prices of the raw material is highly volatile in nature and any adverse movement in the price of raw material may impact the profitability of the company. Further, 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 VCL's with customers leading to intense margin pressures. However, the longstanding customer relationships moderates this risk to an extent.

### **Rating Sensitivities**

Improvement in the scale of operations while maintaining its profitability margin at current level

Any deterioration or stretch in the working capital cycle

### **Material covenants**

None

### **Liquidity Position**

#### **Adequate**

Liquidity of the company is adequate with sufficient net cash accruals to meet the debt service obligations. Net cash accruals of the company stood at Rs.46.65 crore in FY22 as against debt repayment obligation of Rs. 5.57 crores. Net cash accruals of the company are likely to remain sufficient in the range of Rs.54.50-60.40 crore as against debt repayment obligation of Rs.11.52- 14.42 crore in FY22. Average bank limit utilization stood low at 44.44 percent for 6 months ended August 2022. The company maintains an unencumbered cash balance of Rs.0.39 crore as on 31st March, 2022

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its maturing debt obligations.

### **Outlook: Stable**

Acuite believes that the VCL will continue to maintain a 'Stable' outlook over near to medium term owing to its established track record and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected debt and working capital requirements

### **Other Factors affecting Rating**

Not applicable

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	665.25	362.10
PAT	Rs. Cr.	36.17	11.87
PAT Margin	(%)	5.44	3.28
Total Debt/Tangible Net Worth	Times	0.89	1.14
PBDIT/Interest	Times	5.85	3.75

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

None

### 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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History:

Not applicable

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A1   Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A-   Stable   Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.50	ACUITE A-   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A-   Stable   Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-   Stable   Assigned
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A1   Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE A1   Assigned

Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A1   Assigned
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A1   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.26	ACUITE A-   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	11.81	ACUITE A-   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	15.86	ACUITE A-   Stable   Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	12.35	ACUITE A-   Stable   Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.28	ACUITE A-   Stable   Assigned
							ACUITE
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	6.10	A-   Stable   Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	8.84	ACUITE A-   Stable   Assigned

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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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