Vinati Organics Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	5.00	CARE AA+; Stable	Revised from CARE AA; Positive
Long-term/Short-term bank facilities	110.00	CARE AA+; Stable/CARE A1+	Revised from CARE AA; Positive/CARE A1+
Short-term bank facilities	10.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Vinati Organics Limited (VOL) factors in its market leadership in its two key products – in 2-acrylamido-2-methylpropane sulfonic acid (ATBS) and isobutyl benzene (IBB) – in the global market. CARE Ratings Limited (CARE Ratings) believes that the competitive advantage of VOL in both its product segments is expected to sustain in the medium term, as the manufacturing processes are not easy to replicate, and the same acts as an entry barrier for new entrants.

The ratings also factors in the improvement in sales reported by VOL in FY23 (refers to the period April 1 to March 31) primarily driven by a 68% increase in IBB volumes and a 21% rise in Butyl Phenol (BP) volumes, supported by higher pricing and robust ATBS demand in H2 FY23, particularly from multinational customers who built up inventory. While ATBS volume remained flat y-o-y, a 10% revenue growth resulted from better pricing, leading to a 30% growth in total operating income (TOI). The revenue from ATBS grew by 10% in FY23 on a y-o-y basis, while the revenue from IBB increased by 110% and BP by 51% over the same period. During the year FY21, VOL commenced commercial production of butyl phenol, which contributed to around 14% to the total revenue of the company in FY23.

VOL is currently undertaking a capex of around ₹580 crore (around ₹300 crore in VOL for ATBS capacity expansion and around ₹280 crore in Veeral Organics Private Limited [VOPL; 100% subsidiary of VOL], which will enable it to manufacture MEHQ, Guaiacol, and Iso Amylene derivatives. As such, future revenue growth will be supported by the increasing demand for ATBS and BP and incremental revenue from VOPL.

VOL's earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins improved by 39 bps in FY23 to 29.92%, despite the changing product mix with lower-margin BP. Furthermore, despite moderation in the EBITDA margin to 27.85% in Q1FY24 due to increased employee expenses, the overall margins are expected to remain at healthy levels for FY24. While rising input costs are passed on to the customers with a lag, the overall operating margins are expected to be lower than historical levels, albeit at healthy levels owing to the changing product mix.

The ratings continue to derive strength from the long-track record and experience of the promoters in the speciality organic chemical industry. VOL continues to benefit from long-term relationship with an established and reputed clientele across various geographies. The backward integrated manufacturing process with zero discharge along with VOL's cost-efficient operations acts as an entry barrier for new entrants. Furthermore, the rating derives strength from the healthy cash flows from operations, the favourable capital structure along with strong liquidity and the debt coverage indicators.

The ratings continue to be tempered by the concentration of its TOI from limited key products and the susceptibility of VOL's operating margin to raw material price and foreign exchange fluctuations.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Growth in the TOI on the back of increased demand from the existing products as well as effective diversification in product profile while maintaining an operating margin of around 27-30%.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors

- Any significant debt-funded organic or inorganic expansion undertaken by the company that will adversely impact the gearing higher than 0.3x times.
- Weakening of its profit before interest, lease rentals, depreciation and taxation (PBILDT) margins below 25%.

Analytical approach:

CARE Ratings has considered the consolidated financials for arriving at the rating owing to operations in similar line of business and business linkages that exists with its subsidiaries. VOL incorporated a wholly owned subsidiary named Veeral Organics Private Limited on October 05, 2020. The list of companies that are consolidated to arrive at the ratings are given in Annexure-6 below.

Outlook: Stable

The stable outlook reflects the sustenance of the improvement in the operating and financial risk profile of the company amidst healthy cash flow generation from operations and absence of any large debt-funded capex or acquisition plans in the medium term.

Detailed description of the key rating drivers:

Key strengths

Vast experience of the promoters in the specialty chemical business: VOL is promoted by Vinod Saraf, first-generation entrepreneur who has over five decades of experience in the chemical industry. The day-to-day operations of the company are managed by a team of qualified and experienced personnel headed by Vinod Saraf. Besides, his daughter, Vinati Saraf has also been actively involved in managing the business as MD & CEO of the company.

Prior to incorporation of VOL, Saraf was associated with companies such as the Bhilwara group, Modern Syntex (I) Ltd., Grasim Industries Ltd. and Mangalore Refinery and Petrochemicals Ltd. Under his leadership, VOL has grown both in terms of capacities and in terms of basket of products manufactured by it and has become world's largest manufacturers and sellers of Isobutyl Benzene (IBB) and ATBS with a significant market share in both the product categories.

Backward integrated manufacturing of ATBS and Butyl Phenols; highly cost efficient and zero discharge manufacturing facilities: VOL is the only backward integrated manufacturer of ATBS and butyl phenols with its own Isobutylene (IB) manufacturing unit which makes its operations more cost efficient. Well-integrated product portfolio has helped VOL to achieve high operational efficiencies and produce high-quality products.

Long-established relationship with reputed clients with diversified presence in domestic and export markets: VOL has been able to maintain long-term relationship with its clients over the years with its client list including reputed companies such as Chemtall Inc., BASF Corporation, Mitsubishi Corporation, SNF, Dow Europe GMBH among others. VOL enters into long-term supply contracts with its customers, for its two primary products IBB and ATBS. It is an export-oriented company with around 61% of its revenues from exports. It supplies to around 40 countries across the world with majority exports to USA, Europe, Japan and China.

Healthy operating performance in FY23, despite moderation scale and margins to remain healthy in FY24.: VOL witnessed TOI growth of around 30% in FY23 on a y-o-y basis which was primarily driven by a 68% increase in IBB volumes and a 21% rise in BP volumes, supported by higher pricing and robust ATBS demand in H2 FY23, particularly from multinational customers who built up inventory. While ATBS volume remained flat YoY, a 10% revenue growth resulted from better pricing, leading to a 30% growth in Total Operating Income (TOI). Though, Q1FY24 saw a 15% YoY TOI decline, with 90% of the revenue drop attributed to lower volumes and 10% to pricing. ATBS demand is expected to remain weak due to customer inventory build-up in H2 FY23, but the long-term outlook remains positive as global ATBS inventory levels normalize. The inventory destocking mainly affected oil and gas sectors (30-40% of ATBS consumption), while other sectors such as personal care, mining, and water treatment (60-70% demand) continue to show steady demand. The company expects the demand to be robust in the coming years, owing to which, it has announced the expansion of its capacity from 40,000 tonne per annum (TPA) to 60,000TPA. IBB demand remained strong in FY23 and is expected to continue in FY24.

Robust financial risk profile: In order to increase its scale of operations and diversify its revenue base the company has been consistently adding capacities of its existing product lines as well as introducing new products. The healthy cash flows from operations have helped VOL fund its capex entirely from internal accruals thus, resulting in a healthy capital structure. During FY23, VOL reported cash flow from operations of ₹577 crores and it had cash and cash equivalents (including investments) of around ₹199.40 crore as on March 31, 2023. Moreover, VOL's fund-based utilisation also remains low thus, providing additional liquidity.

Diversification into antioxidants (AOs) through proposed amalgamation of Veeral Additives Private Limited (VAPL): VAPL is engaged in the manufacture of AOs used in plastics, low density polyethylene (LDPE), Linear low-density polyethylene (LLDPE), and polypropylene. This company was acquired by Vinod Saraf (Chairman of VOL) four years back and is fully owned by the promoters of VOL. As per Board resolution dated February 2, 2021, the board of VOL had approved the scheme of merger of VAPL with VOL. Vide board resolution dated September 8, 2021, the board of VOL amended the scheme of merger wherein the shareholders of VAPL shall get 14 shares of VOL of ₹1 each in exchange for 713 fully paid up shares of ₹10 each held in VAPL. The Company has received the necessary approvals from shareholders as well as creditors regarding the amalgamation scheme and are currently just awaiting the final approval from NCLT. The value of this transaction is close to ₹145 crore which includes the value of share transfer and the loan of around ₹329 crore extended by VOL to VAPL to repay its existing bank debt. The following are the synergies which are anticipated from this amalgamation:

- Manufacturing of three types of anti-oxidants
- Anti-oxidants use Butyl Phenols as a raw material
- VOL manufactures its own Isobutylene which is used in manufacturing butyl phenols
- VOL would become the largest and only doubly integrated manufacturer of these AO's in India
- The amalgamation would allow VOL to acquire technology, knowledge and resources in the niche AO space which has potential for import substitution as well as exports.

AOs has higher global demand than domestic demand. As such, apart from catering to domestic demand VOL will be able to cater to export requirements as well. Approximately 50% of the products will be sold in domestic market and 50% exported. VAPL has started commercial production and sales and the revenue is expected in this year to be around 150 Crores.

During FY23, to facilitate forward integration to the existing product lines of VAPL, to expedite the completion of the project in time and to avoid delays in the execution, VOL has advanced loans of ₹ 76 crore (PY: ₹ 120.48 crore) to VAPL. Outstanding balance of loans given to VAPL is ₹ 328.53 crore as on March 31, 2023 (vs. ₹ 252.34 crore as on March 31, 2022). VAPL capex has been completed and revenue potential of this capex is ₹ 150 crore in FY24.

Key weaknesses

Product concentrations risk owing to higher dependence on two of its key products although the same is expected to reduce with ramping up of operations in the butyl phenol segment: Despite having a well-integrated product portfolio, VOL continues to derive majority of its revenues from its key products i.e. IBB and ATBS. During FY23, VOL derived around 62% (PY: 63%) of its total revenues from these two products put together. Nonetheless, diverse application of ATBS reduces the product concentration risk up-to a certain extent. Moreover, the company has added four varieties of Butyl Phenol (BP) to its product portfolio and successful ramping of product will reduce its reliance on the two major products up-to some extent. Butyl Phenol contributed around 14% to total revenues in FY23 and is expected to further increase as BP sales gain momentum which is expected to contribute to around 15-20% of the total revenue going forward. During Q1FY24, BP contributed around 17% to total revenues.

Moderation in margins with change in product mix, however continues to be at healthy levels- VOL has been consistently reporting high operating margins in the past ranging between 35% and 42%. EBITDA Margins during FY 20 & 21 were high as a result of higher contribution of revenue from ATBS which is a very high margin product, however with introduction of BP (lower margin product) and consequent change in product mix the margins have moderated yet remain healthy at ~30% and is expected to be in the same range in future years as well. Further, demand for Isobutyl Benzene (IBB) was higher during FY20 & 21 due to Covid since it is used in pharmaceutical products. Going ahead, the company would be able to maintain the margins due to softening of RM prices and its ability to pass on. While raw material prices and freight costs have softened compared to its peak levels. Going forward, with increasing share of butyl phenols in the sales mix, operating margins are expected to be lower than historical levels but will remain at healthy levels.

Exposure to raw material volatility and foreign currency fluctuations mitigated to an extent by cost plus mark-up formulae of pricing followed by VOL: Crude derivatives such as toluene, propylene, acrylonitrile and methyl tert butyl ether are the key raw materials required in the manufacturing process of IBB and ATBS. The company procures toluene from

Reliance Industries Limited (RIL) and local traders whereas propylene is sourced from local refineries like Bharat Petroleum Corporation Limited (BPCL). The pricing terms are based on the base prices of toluene and propylene, which are published by Platts (leading global provider of energy and metals information). VOL follows a cost-plus mark-up formula for pricing of its products and as such is able to pass on raw material price increase to its customers. Being a net exporter, VOL is exposed to foreign exchange fluctuation risk. The company has natural hedge up-to the extent of imports. However, as the company does not hedge fully its foreign currency exposure, it remains exposed to any adverse movement in the foreign exchange. As on March 31, 2023 the company had net USD exposure of ₹ 158.27 crore (P.Y: ₹ 234.05 crore) and net Euro exposure of ₹ 7.61 crore (P.Y: ₹ 11.92 crore).

Liquidity: Strong

The liquidity of VOL is marked by healthy cash accruals from operations against no long-term debt repayment. VOL has unencumbered cash and liquid investments of Rs. ₹199.40 crore as on March 31, 2023 thus providing support to the company's liquidity position. Further, VOL has been regularly reporting healthy cash flow from operations and the same stood at ₹ 577 crore during FY23 (PY: ₹ 126.77 crore). With a negligible overall gearing, VOL has sufficient headroom to raise additional debt for its capex. Working capital limits are mostly used to meet non- fund-based requirements with very little fund-based utilization.

Environment, social, and governance (ESG) risks

Particulars	Risk factors
Environmental	In continuous focus towards reducing its environmental footprint, Vinati Organics Limited in line with its Environment, Social and Governance (ESG) initiatives has commissioned 14 MW of solar power plant. At present almost 55% of VOL's electricity requirement is met through renewable sources. The power generated from solar plants is used for captive use of power at its Mahad/Lote Plants and thereby reduce its net power costs in its manufacturing activities. VOL's main products IBB, ATBS, IB & HPMTBE are manufactured at its 2 plants based out of Mahad & Lote. Both these plants have reduced effluence discharge. VOL is continuously working on further reducing these effluents for both the manufacturing plants. The Company has been proactively engaged into converting waste/residuals from its manufacturing processes into valuable and useful products thereby not only minimizing the waste generated but also creating a source of revenue to the Company. At its Mahad plant the company recovers pure NBB and at Lote plant VOL manufactu.res Tertiary Butyl Acrylamide which is a co-product obtained from the manufacture of ATBS. It also recovers ATFE Bottom Polymers at Lote plant. Continuous efforts are being made to reduce, recycle and reuse or residue as well as product.
Social	The Company has been contributing towards social welfare through the CSR activities it has been conducting. The Company conducted participatory meetings with school principals to introduce the Teacher Foundation (TF) program and its objectives; methodology and envisioned outcomes with emphasis on the role of school leadership. • Developed curriculum methodology, timelines and costing in conjunction With TF Created a core group of mentors from Swades/TF to mentor principals and teachers • Rolled-out training programs with school principals and teachers
Governance	No governance issues as per auditor's report nor any qualified opinion.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

Incorporated in 1989, VOL is one of India's leading manufacturers and exporters of specialty organic intermediaries, monomers, and polymers. VOL is the world's largest manufacturer of isobutyl benzene (IBB) and 2-Acrylamido 2- Methylpropane Sulfonic Acid (ATBS). In an effort towards backward integration, VOL manufactures Isobutylene (IB), one of the key components used in manufacturing ATBS. Besides, VOL also manufactures butyl phenols, Normal Butylbenzene (NBB), Hexenes, N-Tertiary Butyl Acrylamide (TBA), high purity methyl tertiary butyl amine (HP-MTBE) and other industrial monomers on a small scale. Moreover, the company also manufacturers Tertiary Butyl Amine (TB-Amine), Tertiary Butyl Benzoic Acid (PTBBA) and a couple of customized products. Also, VOL plans to expand its product portfolio through Veeral Organics Ltd (fully owned subsidiary) by introducing products like MEHQ and Guaiacol (2000 MT) and Iso Amylene (30000 MT)

Brief Financials (₹ crore) Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	June 30,2023 (UA)
Total operating income	1,674.1	2,122.75	446.36
PBILDT	494.46	635.15	124.33
PAT	346.51	457.59	83.24
Overall gearing (times)	0.01	0.00	-
Interest coverage (times)	299.27	373.90	460.48

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable
Any other information:

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:

Name of Director	Designation of Director
Adesh Kumar Gupta	Non-Executive - Independent Director

Adesh Kumar Gupta who is a Non-Executive / Independent Director on the Board of Vinati Organics Ltd. is a Non-Executive / Independent Director of CARE Ratings. Independent/Non-executive Directors of CARE Ratings. are not a part of CARE Ratings's Rating Committee and do not participate in the rating process.

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE AA+; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	110.00	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (06-Oct-22)	1)CARE A1+ (01-Oct-21)	1)CARE A1+ (31-Aug-20)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	110.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Positive / CARE A1+ (06-Oct-22)	1)CARE AA; Stable / CARE A1+ (01-Oct-21)	1)CARE AA; Stable / CARE A1+ (31-Aug-20)
3	Fund-based - LT-Cash Credit	LT	5.00	CARE AA+; Stable	-	1)CARE AA; Positive (06-Oct-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure- 6

Particulars of subsidiaries as on March 31, 2023	% holding (direct + indirect)	Country of Incorporation
Direct subsidiaries		
Veeral Organics Private Limited	100%	India

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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