Vishnu Chemicals Limited

November 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	156.18 (Reduced from 175.59)	CARE A-; Stable	Revised from CARE BBB; Stable
Short Term Bank Facilities	78.45	CARE A2+	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to bank facilities of Vishnu Chemicals Limited (VCL) considers stable operational performance in FY23 and H1FY24, significant growth in total operating income (TOI) and profitability levels and margins in FY23 [FY refers to the period April 01 to March 31] led by better sales realizations, improved capital structure and debt coverage indicators and comfortable operating cycle, equity infusion in the form of Qualified institutional placement (QIP) amounting to Rs. 200 crores in H1FY24 resulting in increase in net worth and further improvement in leverage position as the funds were utilised for reduction of debt in both VCL and its subsidiary company Vishnu Barium Private Limited (VBPL) and strong liquidity position. The ratings continue to derive strength from established market position of the company in manufacturing of chromium and barium chemicals, diverse product portfolio and end user applications, wide geographical reach and repeated orders backed by long standing association with reputed clientele, cost saving measures undertaken by implementing CO2 acidification plant which acts as a backward integration, flexible product portfolio enabling the company to maintain the profitability, stable industry outlook.

The rating strengths are however constrained by marginal moderation in performance in H1FY24 albeit increase witnessed in sales volumes, susceptibility of profit margins to volatility in raw material prices, exposure to foreign exchange fluctuation risk, competition from imports and Environmental, Social and Governance (ESG) risks as the company operates in chemical industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Healthy volume-driven growth in scale of operations with total operating income (TOI) of more than Rs. 1800 crore on a sustained basis
- Improvement in PBILDT margin to above 18% on sustained basis while maintaining ROCE above 20%.
- Improvement in operating cycle to below 60 days on sustained basis resulting in reduced reliance on working capital borrowings.

Negative factors

- Significant decline in scale of operations with TOI below Rs.1000 crore along with any change in customer profile adversely impacting sales volume of Vishnu Chemicals Limited (VCL)
- Decline in PBILDT margin below 13%
- Elongation in operating cycle to more than 120 days on sustained basis resulting in increased reliance on working capital borrowings.
- Deterioration in overall gearing beyond 0.50x on account of increase in working capital intensity or any major debt funded capex.
- Any change in prevailing pollution control/ environmental norms and/or regulatory ban on production & sales of certain chemicals thereby significantly impacting its business and profitability.

Analytical approach: Consolidated approach. CARE has considered financials of Vishnu Chemicals Ltd. (VCL) (Holding company), Vishnu Barium Pvt Ltd. (wholly owned subsidiary of VCL) and Vishnu South Africa Pty Ltd. (wholly owned subsidiary of VCL – yet to commence operations) in its analysis as the companies are in the similar line of business and have operational/financial linkages. These entities are commonly referred to as VCL in the analysis.

Outlook: Stable. The 'Stable' outlook on the ratings of VCL reflects CARE Rating's expectation to maintain its healthy financial risk profile amidst steady cash flow generation and absence of large debt-funded capital expenditure (capex).

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

Detailed description of the key rating drivers:

Key strengths

Improved operational and financial performance in FY23 and H1FY24: On Consolidated level, VCL has witnessed revenue growth by about 30.61% i.e., to Rs. 1400.74 crore in FY23 compared to Rs. 1072.48 crores in FY22 at the back of increased selling prices of both chromium and barium products by 31.22%. Despite slowdown in demand from export market due to recession in major global economies, VCL was able to maintain the sales volume similar to that of FY22. In line with increase in TOI, PBILDT and PAT levels of the company increased by 50% and 68% i.e., to Rs. 241.67 crores (PY: 161.06 crores) and Rs. 136.5 crores respectively in FY23 led by improved sales realizations. Companies' ability to pass on rise in raw material costs to customers, flexible product mix coupled with cost reduction measures undertaken i.e., Co2 recovery plant for acidification process which acted as a backward integration helped company in fetching better profitability. With higher sales realization, PBILDT margin of the company improved by 223 bps i.e., to 17.25% in FY23 (FY22: 15.02%).
Also, PAT margin of the company improved by 216 bps i.e., to 9.75% in FY23.

During H1FY24, TOI of VCL (On consolidated basis) reported was Rs. 613.84 crores which is marginally lower by 2.88% compared to corresponding H1 of previous year on account of correction in selling prices in tandem with decline in raw material prices. However, VCL was able to increase the sales volumes which enabled the company to maintain the revenue and profitability. It can be witnessed that, Q-o-Q, VCL's sales volume increased by 10% at the back of improved sales from enhanced capacity and acceptance of VCLs products in the market. Despite reduction in selling prices, VCL was able to maintain the margins at similar levels with PBILDT and PAT margins stood at 16.66% and 8.57% respectively.

Equity infusion in the form of Qualified Institutional Placement: In July 2023, VCL raised funds in the form Qualified Institutional Placement (QIP) amounting to Rs. 200 crores (net proceeds of Rs. 196.73 crores) which were utilised to repay loans and reduction in utilisation of working capital limits both in VCL and its subsidiary VBPL. As on September 30, 2023, VCL has paid term loans and unsecured loans and reduced utilisation of working capital for amount Rs. 173.44 crores and balance funds parked in fixed deposit as on September 30, 2023.

Comfortable financial risk profile: As on March 31, 2023, debt profile of VCL consists of term loans availed for capex, ECLGS loan, unsecured loans from promoters and working capital borrowings. Capital structure of the company marked by overall gearing ratio improved and stood comfortable at 0.74x as on March 31, 2023 (PYE: 1.01x) led by healthy profitability levels accredited to net worth coupled with gradual repayment of term loans and reduction in average utilisation working capital limits. Net worth of the company improved from Rs. 276.86 crores as of March 31, 2022 to Rs. 414.36 crores as of March 31, 2023. Other debt coverage indicators, Interest coverage ratio and TD GCA improved to 6.98x and 1.81x in FY23 against 5.75x and 3.23x respectively in FY22. Considering the QIP funds raised in H1FY24, capital structure further improved and remained at 0.27x as on September 30, 2023.

Comfortable operating cycle: Company procures major raw material Chrome Ore from other countries like South Africa which contributes about 40 to 45% of total purchases and other products procured in indigenous market. VCL either makes payments to creditors through LC with cover period of 90 days or make payment in advance. VCL provides credit period of 60 to 90 days to its repetitive customers and received advance payment of 100% at the time of shipment/dispatch of products to its customers. Since the company is into manufacturing, it maintains adequate inventory of essential raw materials to alleviate financial risk and hold inventory for a period 60 days. Operating cycle of the company improved and stood comfortable at 60 days in FY23 from 72 days in FY22 on account of reduction in inventory days and improved collection period. With efficient working capital cycle, reliance on working capital borrowings reduced to 76% over last 12 months ended August 2023.

Established position with experienced promoters and management team: Mr. Ch. Krishna Murthy, one of the key architects in envisioning the growth and expansion of Vishnu Chemicals Limited (VCL) have an experience of over 3 decades in the business of manufacturing, marketing and exporting of chromium chemicals worldwide. Apart from Mr. Ch Krishna Murthy, Ms. Ch. Manjula (Wife of Mr. Ch Krishna Murthy) and Mr. Ch. Siddhartha (Son of Mr. Ch Krishna Murthy) are also the co-promoters of the company. Mr. Ch. Siddartha is a Joint Managing Director of Vishnu Chemicals Limited and Managing Director of Vishnu Barium Private Limited. He holds a master's degree in biotechnology from Northumbria University, UK and a MBA from Saginaw Valley State University, USA. He has shouldered multiple responsibilities and his experience in international marketing, sourcing and building highly effective teams to serve customers in chemical industry has helped the company achieve scale and leadership position in global markets. VCL is serving more than 15 industries across 50+ countries globally.

Wide geographical reach in global market and long-term association with reputed clientele: VCL has established presence in both domestic as well as international market. VCL has presence in 50+ countries and sell majorly in the markets like Brazil, USA, Mexico, South Korea, Italy, Germany, Australia, Bangladesh, Argentina and Egypt etc., During FY23, Exports constituted about 48.26% of total TOI on consolidated level against 50.45% in FY22. In terms of value, exports increased by almost 24.8% to Rs. 679.15 crores from Rs. 545.08 crore in FY23. Apart from export market, the company is also gaining increased share in domestic market as can be witnessed from higher sales reported in FY23. The contribution to overall sales from domestic market increased to about 52% and when compared to previous year, TOI from domestic sales increased by about 36% to Rs.728.02 crore. Further, VCL accepts the orders from export or domestic market based on demand and associated probability.

Repeated orders backed by long standing association with reputed clientele: As on August 31, 2023, VCL (on standalone) has order book of Rs. 162.29 crores to be executed within 3 months. Company receives repeated orders from longstanding and reputed clientele like Solara Active Pharma Sciences Ltd, IOL Chemicals and Pharmaceuticals Ltd., Montana Quimica Ltd etc. Contribution from top 10 customers for FY23 stood at 42.66%.

Key weaknesses

Exposure to volatility in raw material prices and foreign exchange fluctuation: Raw material is the major cost to company which contributes about 45 to 50% of cost of sales. Major raw materials required to manufacture chromium products (major contributor to VCL) are Chrome ore and Soda ash which are volatile in nature. During FY23, raw material prices of Chrome ore and Soda ash increased by about 47% and 83% respectively. However, company is able to pass on majority of hike in input costs to customers which resulted in better profitability in FY23. To mitigate the risk of increase in raw material prices, VCL had put up a Co2 recovery plant for acidification process to manufacture Sodium dichromate which produces soda ash as co product (one of the key raw materials used to manufacture key product Sodium dichromate which helps reduce VCLs dependence on Soda ash from external sources to some extent.

Also, Company imports part of raw material i.e., Chrome ore and also export the products result in foreign exchange fluctuation risk. However, the VCL (on consolidated level) is a net exporter of speciality chemicals, currency is mitigated through natural hedge. During FY23, VCL (On consolidated level) has gained on foreign exchange fluctuations amounting to Rs. 8.70 crores against Rs. 2.43 crores in FY22.

Exposed competition from imports and other regulatory risks: One of the biggest challenges faced by the Indian chemical industry is the ease in the availability of cheaper chemicals via import. However, the Indian chemical industry possesses several advantages considering the problems stemming from the trade conflict amongst the US, China and Europe. Disruption in China's supply chain and its anti-pollution measures poses significant opportunities for India to capitalize on. Also, change in regulatory requirements, geopolitical tensions, trade restrictions and trade policies will have impact on company's performance.

Exposed to ESG risks: The company is in manufacturing of chromium products and wastage material from Chrome is hazardous in nature. Stringent environmental regulations for disposal and emissions of chrome sludge should be in place, failing which may result in legal repercussions and harm to company's reputation. To address these environmental challenges, incorporating robust measures to prevent pollution, ensuring proper management of waste, and strict adherence to environmental regulations. Furthermore, exploring investments in cleaner production technologies can play a pivotal role in reducing the environmental footprint associated with chromium products. VCL has come up with a solution that Chrome sludge can be used as raw material to manufacture cement which is approved by National council for Cement & Building materials (NCCBM**)**. Company has taken approval to move the sludge to cement industries for all manufacturing facilities or the treatment, storage, and disposal facility (TSDF) as per directions issued by the board.

Liquidity: Strong

Liquidity is Strong marked by gross cash accruals of Rs. 166.88 crores against repayment obligations of Rs. 41 crores in FY24. Also, during FY24, VCL has raised equity in the form of Qualified institutional placement for amount Rs. 200 crores which were utilised for reduction in debt levels. Rs.174 crore in total was utilised for prepayment of term debt, unsecured loans and reduction in outstanding working capital borrowings. This had led to improvement in liquidity position to the company. Cash flow from operating activities stood positive at Rs. 151.50. Average utilisation of working capital limits stood at 76.28% over last 12 months ended August 2023.

Environment, social, and governance (ESG) risks:

Environmental: The Company is actively mapping potential water-saving projects, especially concerning freshwater like adopting new techniques in operations to achieve Zero Liquid Discharge (ZLD), Effluent Treatment Plants (ETP), Multiple effect evaporators etc. Currently the Company is successful in implementing ZLD operations at two locations.

Social: The Company ensures a safe and healthy workplace. Imparting awareness in every shift, work permit system, safety awareness, providing PPE kits to all employees are some of the measures taken by the Company. The Company across all its plant locations has deployed appropriate and adequate safety appliances. Provisions have been made for safe drinking water. Personal Protective Equipment are made available at all locations, regular drills are conducted to ensure preparedness, training session on safe handling and disposal of waste and regular health check-ups are done to ensure safety management.

Governance: Compliance of statutory norms, Continuous monitoring, reporting and corrective/ preventive actions are taken as and when required.

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 on March 27, 1989. Vishnu Chemicals Limited is in the business of manufacturing, marketing and export of chromium chemicals, Barium compounds and other specialty chemicals worldwide. The company is serving more than 15 industries across 50+ countries globally. The barium compounds are produced under its subsidiary Vishnu Barium Private Limited. The company has four manufacturing units, one in Telangana, two in Andhra Pradesh and one unit in Chhattisgarh with a total installed capacity of 231,000 Metric Tonne Per Annum (MTPA).

Vishnu Barium Private Limited (VBPL) [erstwhile Solvay Vishnu Barium Private Limited] was incorporated on May 29, 2001 as a JV between Solvay group (Belgium Chemical Group) and Vishnu Chemicals Limited (VCL). After 5 years of operation, Solvay group took over the entire stake in the company. Subsequently, during FY16, VCL bought the 100% stake from Solvay group and thereafter VBPL continued operations starting July 01, 2015 as a wholly owned subsidiary of VCL. VBPL is the largest manufacturer of Barium chemical in India. It has its manufacturing plant at Srikalahasti, Andhra Pradesh with an installed capacity of 60,000 MTPA (increased from 40,000 MTPA) of Barium Carbonate, 7,800 MTPA of Sulphur and 33000 MTPA of Precipitated Barium Sulphate. VCL caters to various export markets in Europe, Asia, Africa, North America, South America etc.

VCL – Consolidated:

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1072.48	1400.74	613.84
PBILDT	161.06	241.67	102.25
PAT	81.39	136.56	52.61
Overall gearing (times)	1.01	0.71	0.27
Interest coverage (times)	5.75	6.98	5.57

VCL – Standalone:

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	909.12	1,230.55	521.14
PBILDT	129.93	217.37	85.28
PAT	65.24	129.34	49.27
Overall gearing (times)	1.03	0.56	NA
Interest coverage (times)	5.04	7.63	7.01

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: 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		-	-	-	100.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	30-11- 2027	56.18	CARE A-; Stable
Fund-based - ST-Standby Line of Credit		-	-	-	8.45	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	70.00	CARE A2+

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	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)CARE BB+; Stable (29-Oct-20) 2)Withdrawn (29-Oct-20)
2	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	-	1)Withdrawn (29-Oct-20) 2)CARE BB+; Stable (29-Oct-20)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)CARE A4+ (29-Oct-20) 2)Withdrawn (29-Oct-20)
4	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)Withdrawn (29-Oct-20) 2)CARE A4+ (29-Oct-20)

5	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (20-Nov-20) 2)Withdrawn (20-Nov-20) 3)CARE BB+; Stable; ISSUER NOT COOPERATING* (29-Oct-20)
6	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (20-Nov-20) 2)Withdrawn (20-Nov-20) 3)CARE BB+; Stable; ISSUER NOT COOPERATING* (29-Oct-20)
7	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (20-Nov-20) 2)Withdrawn (20-Nov-20) 3)CARE A4+; ISSUER NOT COOPERATING* (29-Oct-20)
8	Fund-based - LT-Cash Credit	LT	100.00	CARE A-; Stable	-	1)CARE BBB; Stable (10-Feb-23)	-	-
9	Non-fund-based - ST-BG/LC	ST	70.00	CARE A2+	-	1)CARE A3+ (10-Feb-23)	-	-
10	Fund-based - LT-Term Loan	LT	56.18	CARE A-; Stable	-	1)CARE BBB; Stable (10-Feb-23)	-	-

11	Fund-based - ST-Standby Line of Credit	ST	8.45	CARE A2+	-	1)CARE A3+ (10-Feb-23)	-	-

*Long term/Short term.

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

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-Term Loan	Simple
3	Fund-based - ST-Standby Line of Credit	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

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:
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