Parinee Crescenzo, "A" Wing, 1102, 11th Floor,
"G" Block, Plot No. C38 & C39,
Behind MCA, Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051, India.
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E-mail : vinati@vinatiorganics.com
Website : www.vinatiorganics.com
CIN : L24116MH1989PLC052224

VINATI ORGANICS LIMITED

October 12, 2021

The Stock Exchange, Mumbai
(Listing Department)
P. J. Towers, 1st Floor,
Dalal Street, Mumbai – 400 001.

Scrip Code: 524200

National Stock Exchange of India Ltd.
Listing Department,
Exchange Plaza, Plot No. C/1, 'G' Block,
Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051.

NSE Symbol: VINATIORGA / Series: EQ

Dear Sir/Madam,

VINATI ORGANICS LIMITED – UPDATE

This is to inform you that the Credit Analysis & Research Ltd. (CARE) has reaffirmed the ratings to the bank facilities of Vinati Organics Ltd as below:

- Long-term/Short-term Bank Facilities – Reaffirmed CARE AA; Stable / CARE A1+
- Short-term Bank Facilities – Reaffirmed CARE A1+

The press release for the same is attached herewith.

The above Press Release is also being uploaded on the Company's website: www.vinatiorganics.com.

You are requested to take on record of the same and acknowledge the receipt.

This is for your information and records.

Thanking you,

Yours faithfully,
For **Vinati Organics Limited**

Milind Wagh
Company Secretary/Compliance Officer

Encl: As above

Vinati Organics Limited

October 01, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term / Short-term Bank Facilities	75.00 (Reduced from 85.00)	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term Bank Facilities	10.00 (Reduced from 31.65)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**85.00 (Rs. Eighty five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vinati Organics Limited (VOL) factor in its market leadership in its two key products, viz, in 2- Acrylamido 2 Methylpropane Sulfonic Acid (ATBS) and Isobutyl Benzene (IBB) in the global market. CARE Ratings believes that the competitive advantage of VOL in both its product segments is expected to sustain in medium term as the manufacturing processes are not easy to replicate and same acts as entry barrier for new entrants.

The ratings also factor in the marginal decline in sales reported by VOL in FY21 (refers to the period April 1 to March 31) on the back of muted demand for ATBS (contributing to around 40% of the total sales for VOL). While revenue from ATBS declined by 36% in FY21 on a YoY basis, revenue from IBB increased by 22% over the same period. Furthermore, during the year FY21, VOL commenced commercial production of a new product, viz., butyl phenol, which contributed to the total revenue of the company. Q1FY22 saw revival in demand in the ATBS segment which led to the company reporting highest-ever quarterly revenue. Furthermore, improved demand for butyl phenols also supported revenue growth in Q1FY22. VOL is currently undertaking capex of around Rs.200 crore (around Rs.110 crore in VOL and around Rs.90 crore in Veeral Organics Private Limited (VOPL; 100% subsidiary of VOL) which will enable it to manufacture additional derivates of isobutylene (IB). As such, future revenue growth will be supported by increasing demand for ATBS and butyl phenols and incremental revenue from new IB derivatives.

The operating margins for VOL have declined in FY21 and Q1FY22 owing to rising raw material cost, increased freight costs as well as change in product mix. 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 increasing share of butyl phenols in the sales 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 the long-term relationship with established and reputed clientele across various geographies. 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 healthy cash flows from operations, favourable capital structure along with strong liquidity and debt coverage indicators.

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

Rating Sensitivities

Positive triggers:

- *Growth in the total operating income on back of increased demand from existing products as well as effective diversification in product profile*
- *Return on capital employed above 30% on a sustained basis*

Negative triggers:

- *Any significant debt-funded organic or inorganic expansion undertaken by the company which adversely impacts the debt protection metrics going forward*
- *Weakening of its PBILDT margins below 25% and RoCE below 22% on sustained basis*

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Detailed description of the key rating drivers
Key Rating Strengths
Vast experience of the promoters in the specialty chemical business
VOL is promoted by Mr Vinod Saraf, first-generation entrepreneur who has over two 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 Mr Vinod Saraf. Besides, his daughter, Ms Vinati Saraf has also been actively involved in managing the business.
Prior to incorporation of VOL, Mr 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 BASF Corporation, Mitsubishi Corporation, SNF, Dow Chemicals 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 70% - 74% of its revenues from exports. It supplies to around 40 countries across the world with majority exports to USA, Europe and China.

Comfortable gearing and coverage indicators on the back of absence of long-term debt, low utilization of working capital limits and healthy cash flows from operations
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. Healthy cash flows from operations have helped VOL fund its capex entirely from internal accruals thus, resulting in a healthy capital structure. During FY21, VOL reported cash flow from operations of Rs.219.10 in FY21 and it had cash and cash equivalents (including investments) of around Rs.295.52 crore. Moreover, VOL's fund-based utilization also remains low thus, providing additional liquidity.

Diversification into antioxidants through the proposed amalgamation of Veeral Additives Private Limited (VAPL)
VAPL is engaged in the manufacture of Antioxidants (AO) used in plastics, LDPE, LLDPE, and polypropylene. This company was acquired by Mr Vinod Saraf (Chairman of VOL) three 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. Recently, 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 Rs. 1 each in exchange for 713 fully paid up shares of Rs.10 each held in VAPL. This scheme of merger is yet to be approved by SEBI, the stock exchanges and NCLT. The value of this transaction is close to Rs.270 crore which includes the value of share transfer and the loan of around Rs.165 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

Currently, the demand for AOs in India is about 10,000 MT per annum and global demand is around 3 lakh tons per annum. Whereas the total capacity of Veeral Additives is 24,000 MT. 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. Revenue expectation post-merger is to the tune of Rs.300 crore per annum.

Key Rating 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 FY21, VOL derived around 63% (previous year 74%) 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.

De-growth in sales witnessed in FY21 on the back of weak demand for ATBS; revival in ATBS demand has led VOL to report significant increase in sales in Q1FY22

VOL witnessed sales de-growth of around 7% in FY21 on a y-o-y basis which was primarily driven by decline in ATBS sales. IBB sales was impacted in FY20 owing to plant shutdowns of its key customer, i.e., BASF. However, expansion in Ibuprofen manufacturing facilities of BASF coupled with increased demand for IBB owing to the pandemic led to healthy sales growth of IBB in FY21. ATBS sales on the other hand declined significantly in FY21 owing to low demand across industries and in particular the oil and has sector (accounting for around 25% of total demand for ATBS). Sales de-growth in FY21 was also supported by revenue from BP.

Q1FY22 saw revival in demand in the ATBS segment which led to the company reporting highest ever quarterly revenue. In FY22, IBB sales are expected to be muted owing to overstocking by the customers in FY21. Nevertheless, strong demand from ATBS and butyl phenols is likely to drive revenue growth going forward.

Decline in operating margins in Q1FY22 owing to steep increase in raw material cost as well as change in product mix

VOL has been consistently reporting high operating margins in the past ranging between 35% and 42% on the back of its strong position in both its key product segments, i.e., IBB and ATBS. However, steep increase in the price of its key raw materials, increased freight costs and change in sales mix in Q1FY22 led to a decline in operating margins. While raw material prices have corrected by around 30% than its peak levels (in February and March 2021) and also pass through, freight costs continued to remain high (around 5x to what it was in the past). 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, 2021, the company had net USD exposure of Rs.157.59 crore (P.Y: Rs.87.90 crore) and net Euro exposure of Rs.6.32 crore (P.Y: Rs.9.55 crore).

Liquidity: Strong

Liquidity of VOL is marked by healthy cash accruals from operations against no long-term debt repayment. Additionally, the presence of unencumbered cash and investments balance of Rs.295.52 crore as on March 31, 2021, provides support to the company's liquidity position. Furthermore, VOL has been regularly reporting healthy cash flow from operations and the same stood at Rs.219.01 crore during FY21. 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.

Analytical approach: Changed from standalone to consolidated after VOL incorporated a wholly-owned subsidiary named Veeral Organics Private Limited (VOPL) on October 5, 2020.

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

About the Company

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). IBB finds application in the manufacturing of Ibuprofen (a non-steroidal anti-inflammatory drug), while ATBS is a specialty monomer which finds multiple applications in operations, such as industrial water treatment, oil field recovery, construction chemicals, hydrogels for medical applications, personal care products, emulsion polymers, detergents, textile print pastes, adhesives and sealants, thickeners and paper coatings. 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.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-06-2021 (UA)
Total operating income	1,065.22	971.32	403.98
PBILDT	451.23	370.32	119.12
PAT	333.82	269.34	80.95
Overall gearing (times)	0.00	0.00	Not Available
Interest coverage (times)	221.62	390.55	9379.76

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information:

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

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

Mr Adesh Kumar Gupta is a Non-Executive / Independent Director in Vinati Organics Limited and also holds the Non-Executive / Independent Director position in CARE Ratings Limited. Thus, the rating note is not shared / sent to him. In compliance to the regulatory guidelines, Mr Gupta has not participated in any rating process, nor he was part of Rating Committee Meeting. The press disclosure for the same would be made along with rating press release.

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A1+
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	75.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (31-Aug-20)	1)CARE A1+ (09-Aug-19)	1)CARE A1+ (06-Jul-18)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	75.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (31-Aug-20)	1)CARE AA; Stable / CARE A1+ (09-Aug-19)	1)CARE AA-; Stable / CARE A1+ (06-Jul-18)
3	Fund-based/Non-fund-based-LT/ST	-	-	-	-	-	1)CARE AA; Stable / CARE A1+ (09-Aug-19)	1)CARE AA-; Stable / CARE A1+ (06-Jul-18)

** Long Term / Short Term*

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender-wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *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@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**