

Press Release

Expovan

May 09, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.40.00 Cr (Enhanced from Rs.25.00 Cr)
Long Term Rating	SMERA BB/Stable (Upgraded from SMERA BB-/Stable)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long term rating on the Rs.40.00 crore bank facilities of Expovan to **'SMERA BB' (read as SMERA double B)** from SMERA BB-/Stable. The outlook is **'Stable'**.

Expovan, established in 2014, is a Tamil Nadu-based firm engaged in the manufacture of processed vanilla beans, extract, powder, seeds and other related products. The ratings have been upgraded on account of improvement in revenue and healthy profitability which is expected to be sustained. The ratings also draw comfort from the experienced management. However, the ratings are constrained by the moderate capital structure, susceptibility of margins to fluctuation in raw material prices and working capital intensive business.

Expovan posted revenue of Rs. 131.81 cr in FY2017 (provisional) as compared to Rs.24.98 cr in FY2016. The firm commenced operations in the second half of FY2016. Business picked up in FY2017 with penetration in the international market. The firm caters to reputed companies like Symrise (Germany) and McCormick Global Ingredients Limited (Group company of McCormick & Company, USA) and has a current order book of ~Rs.131.00 cr, thus providing revenue visibility.

The operating margin stands healthy at 7.40 per cent in FY2017 (provisional) (as against 11.15 per cent in FY2016). Further, the net margins also stood healthy at 4.92 per cent in FY2017 (provisional).

List of key rating drivers and their detailed description

Strengths:

Experienced management: Mr. (Dr.) R. Mahendran, has more than a decade's experience in vanilla processing. In 2004, he was associated with Eurovanille India Private Limited, subsidiary of Eurovanille-France and held the position of Managing Director till 2014. Over the years, he has been able to develop healthy relations with international customers and suppliers.

SMERA believes that the promoters' experience and relationships with customers and suppliers will support the business risk profile of Expovan.

Weaknesses:

Moderate capital structure: The firm has moderate networth of Rs.28.05 cr and moderately high gearing of around 1.84 times as on March 31, 2017 (provisional). The total debt mainly includes unsecured loans from promoters of Rs.12.91 cr (treated as debt for analytical purpose), vehicle loan of Rs.1.96 cr and short term borrowing of Rs.36.88 cr as on March 31, 2017.

Further, the firm has plans to increase its working capital borrowing to meet its revenue growth which is expected to keep the gearing levels high.

Susceptibility of margins to fluctuations in raw material prices: Vanilla is an agro commodity and hence, its price is largely dependent on climatic conditions and the demand supply scenario. Since vanilla is largely cultivated in countries like Madagascar and Indonesia, the firm is dependent on imports. Further, considering the long processing time, the firm needs to maintain large inventory thus, exposing the margins to fluctuations in raw material prices.

Working capital intensive operations: The firm has working capital intensive operations marked by high GCA of around 261 days in FY2017 (provisional) mainly on account of high inventory of around 165 days. The firm has to maintain high inventory as the processing time for vanilla beans takes around 120-150 days. However the management expects the inventory days to come down gradually with the import of semi processed vanilla beans from Indonesia which require limited time for processing.

Further, the average bank limit utilisation stood high at around ~97.16 per cent during September, 2016 to February, 2017.

SMERA believes that the efficient working capital management will be crucial to maintain a stable credit profile for Expovan.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the firm to arrive at the ratings.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook on Expovan's rated facilities will remain stable over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers sustained growth in revenue while improving profit margins. Conversely, the outlook may be revised to 'Negative' in case of steep decline in the operating profit margins or significant deterioration in the capital structure on account of larger than envisaged debt funded capex and working capital borrowings.

About the Rated Entity

Established in 2014 as a proprietorship concern, Expovan was converted into a partnership firm in 2015 by partners, Mr. Dr. R. Mahendran and Mrs. N. Kamatchiammal of Coimbatore, Tamil Nadu. The firm is engaged in the manufacture of processed vanilla beans, extract, powder, seeds and other related products and commenced operations from September, 2015.

For FY2016-17 (provisional), Expovan reported net profit of Rs.6.48 cr on operating income of Rs.131.81 cr, as compared to net profit of Rs.1.32 cr on operating income of Rs.24.98 cr in FY2015-16.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017 - II			FY2017 - I		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
PCFC/EPC (Packing Credit in Foreign Currency/Export Packing Credit)	LT	40.00 (Enhanced from Rs.25.00 crore)	SMERA BB/Stable (Upgraded)	June 22	SMERA BB-/Stable (Assigned)	-	-	-	-
PCFC/EPC (Packing Credit in Foreign Currency/Export Packing Credit)	-	-	-	June 22	SMERA A4+ (Withdrawn)	Feb 15	SMERA A4+ (Assigned)	-	-

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs in crore)	Ratings/ Outlook
PCFC/EPC (Packing Credit in Foreign Currency/Export Packing Credit)	NA	NA	NA	40.00 (Enhanced from Rs.25.00 cr)	SMERA BB/Stable (Upgraded)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Rating Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Reema Gangola, Rating Analyst, Tel:022-67141111 Email: reema.gangola@smera.in	

ABOUT SMERA

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