

Press Release

Vintage Coffee Private Limited

January 22, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.83.47 Cr.
Long Term Rating	ACUITE B-/ Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs.83.47 Cr bank facilities of Vintage Coffee Private Limited (VCPL). The outlook is '**Stable**'.

Incorporated in 2015, VCPL is a 100% export-oriented company located in Hyderabad. It is engaged in manufacturing various varieties of coffee products like soluble instant coffee, including spray dried coffee; spray dried agglomerated coffee in bulk and standard packages. VCPL's manufacturing facility is located at Rachur village in Mahbubnagar District (Telangana) with an installed capacity of 4500 tons per annum. The company processes and exports its coffee Products to markets in major coffee consuming nations such as Russia, Poland, Spain, France, Malaysia among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of VCPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

VCPL is promoted by Mr. Balakrishna Tati and Mr. Michael Chin, the promoters of the company have been engaged in the same industry for more than 2 decades through various entities and they look after the day to day operations of the company. The senior management team is ably supported by a strong line of mid-level managers. VHPL's processed coffee exporting business, started in August FY2017. The promoters have good networking of client base that is expected to support in early stabilisation of its operations both in the domestic and export markets. In FY2019, VCPL reported an operating income of Rs.41.57 crore which is a first full year of operation. Acuité believes that though the operations are at nascent stage, VCPL is expected to benefit from strong experience of the promoters over the medium term.

Weaknesses

- **Below-average financial risk profile**

The financial risk profile of the VCPL is below-average marked by weak capital structure reflected by high gearing (debt-to-equity), high total outside liabilities to tangible net worth (TOL/TNW), moderate networth and weak protection metrics. The gearing and TOL/TNW are high at 2.88 times and 3.25 times as on March 31, 2019 vis-à-vis 3.25 times and 3.48 times as on March 31, 2018. The net worth is modest at Rs.28.22 crore as on 31 March, 2019. VCPL debt protection metrics are weak reflected by interest coverage 0.42 times in FY2019. The financial risk profile is attributed to large debt funded capital expenditure of Rs.82.24 crore at a debt to equity of 3:1 for setting up of the coffee processing plant. The project is funded out of term loan of Rs.51.17 crore, and balance out of promoters' capital. As the operations are at nascent stage, the financial risk profile is expected to be at similar levels over the medium term.

- **Working capital intensive operations**

VCPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 469 days for FY2019, primarily on account of high inventory and receivables days resulting in high utilisation of the working capital facilities. Its inventory and receivables days are 323 days and 106 days for FY2019. Due to the high inventory levels its bank limits utilisation is high at 99 percent for the past six months ended December, 2019. Acuité believes that the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company to cater to spot orders/extended credit period offered to acquire new customers/expand its sales to new geography.

Liquidity Position: poor

The liquidity risk profile of the VCPL is poor marked by Negative free cash flow from operations due to continued operating losses as well as high utilization its bank limits at 99 % during the last 6 months through December 2019. VCPL has repayment obligations of Rs.10 crore against which its accruals are negative for FY2019. Acuité believes that timely funding support from promoters for timely servicing of its debt obligations will be key rating sensitivity.

Rating Sensitivities

- Scaling up of revenues along with sustained improvement in the profitability margins
- Improvement in the overall financial risk profile and the working capital management
- Timely funding support from promoters

Material Covenants

None

Outlook: Stable

Acuité believes the VCPL will maintain 'Stable' outlook over the medium term on account of promoters' extensive experience and healthy relationships with customers. The outlook may be revised to 'Positive' in case the company registers a significant improvement in its revenues while improving its profitability levels along with capital structure. Conversely, the outlook may be revised to 'Negative' if lower-than-expected profitability and revenue or lower-than-expected cash generation, or further stretch in the working capital, which weakens its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	41.57	17.04
PAT	Rs. Cr.	(9.49)	(1.70)
PAT Margin	(%)	(22.83)	(9.95)
Total Debt/Tangible Net Worth	Times	2.88	3.25
PBDIT/Interest	Times	0.42	1.58

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Sector Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Sept-2019	PC/PCFC	Short Term	25.00	ACUITE D (Withdrawn)
	Letter of credit	Short Term	4.00	ACUITE D (Withdrawn)
	Term Loan	Long Term	25.00	ACUITE D (Withdrawn)
26-Oct-2018	PC/PCFC	Short Term	25.00	ACUITE D (Downgraded from ACUITE A4)
	Letter of credit	Short Term	4.00	ACUITE D (Downgraded from ACUITE A4)
	Term Loan	Long Term	25.00	ACUITE D (Downgraded from ACUITE B/ Stable)
26-Oct-2018	Letter of Credit	Short Term	4.00	ACUITE A4 (Indicative)
	Packing Credit	Short Term	25.00	ACUITE A4 (Indicative)
	Term Loan	Long Term	51.17	ACUITE B (Indicative)
22-Dec-2017	Term Loan	Long Term	51.17	ACUITE B/Stable (Reaffirmed)
	Packing Credit	Short Term	25.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A4 (Assigned)
08-Aug-2016	Term Loan	Long Term	51.17	ACUITE B / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loans	Not Applicable	Not Applicable	Not Applicable	44.47	ACUITE B- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4

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About Acuité Ratings & Research:

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