

Press Release

Vantage Organic Foods Private Limited

August 13, 2020



Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs.32.65 Cr (Enhanced from Rs.27.00Cr)
Long Term Rating	ACUITE BB/Outlook: Stable (Downgraded from ACUITE BB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs.27.00 crore bank facilities of Vantage Organic Foods Private Limited (VOFPL). The outlook is '**Stable**'.

Also, Acuité has assigned the long term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.5.65 crore bank facilities of VOFPL. The outlook is '**Stable**'.

The downgrade in the rating is on account of deterioration in profitability margins, leading to deterioration in the financial risk profile of the company. Even though the operating income of the company has increased by around 43.20 percent to Rs.145.28crore (Prov.) in FY2020 from Rs101.45crore in FY2019, the operating margin has declined from 3.94 percent in FY2019 to 1.64 percent (Prov.) in FY2020. Similarly, the PAT margin has declined from 1.79 percent in FY2019 to 0.45 percent (Prov.) in FY2020. Further, the deterioration in profitability has led to the deterioration in financial risk profile marked by moderate coverage indicators and moderate debt protection metrics. Any further deterioration in profitability margins or financial risk profile would remain a key sensitivity factor.

Incorporated in the year 2008, VOFPL is a Jaipur-Rajasthan based company. The directors of the company are Mr. Vipul Gupta, Mrs. Sheetal Gupta and Mr. Mani Ram Gupta. The company is engaged in the business of manufacturing and exporting of organic food ingredients. The company has its manufacturing unit at Mhow, Indore with an installed capacity of 40,000MT/Annum. The capacity utilization is around 62 percent.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of VOFPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

VOFPL was incorporated in the year 2008. The directors of the company have been engaged in the aforementioned business line for more than a decade. The extensive experience of the directors has helped in establishing healthy relationships with its customers and suppliers. The key customers of the company include names like Sure Source, Sheppard Grain and Field Farm amongst others. The key suppliers include names like Dinesh Chand Bhawar Lal, and Gopal Dal Mill, to name a few. On the back of stable and repeated orders from its customer, the operating income of the company has increased by around 43.20 percent to Rs.145.28crores (Prov.) in FY2020 from Rs.101.45crores in FY2019.

Acuité believes that the company will benefit from the extensive experience of the promoters and healthy relationship with its customers and suppliers.

- **Comfortable working capital management**

VOFPL's working capital is comfortable as it is reflected by its Gross Current Asset (GCA) days of around 78 (Prov.) in FY2020 as against 93 days in FY2019. The company maintained an inventory of around 34 days (Prov.) as on 31 March, 2020 as against 21 days as on 31 March, 2019. VOFPL extended a credit period of 32 days (Prov.) as on March 31, 2020 to its customer as against 69 days as on March 31, 2019. On the other hand, the company has a credit payment of 5 days (Prov.) to its suppliers as on March 31, 2020 as against 11 days as on March 31, 2019. Acuité expects the working capital management to remain comfortable over the medium term.

Weaknesses

- **Average financial risk profile**

VOFPL's financial risk profile is average, marked by low net worth, high gearing and moderate debt protection metrics. VOFPL's net worth is low estimated at around Rs.10.03crore (Prov.) as on March 31, 2020 as against Rs.9.38crore as on March 31, 2019. However, the net worth levels have seen improvement over the last three years through FY2020 on account of limited accretion to reserves during the same period. The gearing continues to remain high at around 2.71 times (Prov.) as on March 31, 2020 as against 2.36 times as on March 31, 2019. The company incurred a capex of around Rs.1.47crore in the last year to expand its scale of operation, while its incremental working capital requirement over the same period to support the increase in the scale of operations has been around Rs.(0.34)crore. As on March 31, 2020, total outside liabilities to tangible net worth (TOL/TNW) levels stands at 3.34 times (Prov.) as against to 3.09 times in FY2019. The company, on the other hand, generated cash accruals of Rs.1.40crore (Prov.) in FY2020 as against Rs.2.77crore in FY2019. VOFPL's cash accruals over the next two years through FY2022 are estimated to remain in the range of Rs.2.15crore to Rs.3.63crore.

The revenue of the company has increased by around 43.20 percent to Rs.145.28crore (Prov.) in FY2020 from Rs.101.45crores in FY2019. EBITDA in absolute term has declined to Rs.2.38crore (Prov.) in FY2020 from Rs.4.00crore in FY2019. As a result, the PAT has declined from Rs.1.82crore in FY2019 to Rs.0.65crore (Prov.) in FY2020. The low profitability levels, coupled with high debt levels have led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 was moderate at 0.05 times (Prov.) and 2.30 times (Prov.), respectively as against 0.12 times and 4.96 times in FY2019, respectively. The Debt-EBITDA ratio stands at 9.47times (Prov.) in FY2020 against 4.85 times in FY2019.

Acuité believes that the financial risk profile of VOFPL will continue to remain average over the near to medium term.

- **Decline in the profitability margins**

The operating margin has declined from 3.94 percent in FY2019 to 1.64 percent (Prov.) in FY2020. Similarly, the PAT margin has declined to 0.45 percent (Prov.) in FY2020 from 1.79 percent in FY2019. As more than 80 percent of the company's revenue is derived through export activities so price remains susceptible to volatility associated to forex rates, resulting in uneven margins.

Liquidity Position: Stretched

The company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.40crore (Prov.) in FY2020 as against its maturing debt obligation of Rs.0.80crore during the same period. The cash accrual of the company is estimated to remain around Rs.2.15crore to Rs.4.87crore during 2021-23 against repayment obligations of Rs.0.80crore during the same period. The company's working capital operations is comfortable marked by the Gross Current Asset (GCA) days of 78 days (Prov.) for FY2020 as against 93 days in FY2019. The company maintains unencumbered cash and bank balances of Rs.1.21crore (Prov.) as on 31 March 2020. The current ratio stands at 1.13 times (Prov.) as on 31 March 2020. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of moderate net cash accruals to its debt repayments over the medium term.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Significant improvement in the financial risk profile

Outlook: Stable

Acuité believes that VOFPL will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in the operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	145.28	101.45
PAT	Rs. Cr.	0.65	1.82
PAT Margin	(%)	0.45	1.79
Total Debt/Tangible Net Worth	Times	2.71	2.36
PBDIT/Interest	Times	2.30	4.96

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

Not Applicable

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing 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/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Sep-2019	Packing Credit	Long Term	18.40	ACUITE BB+ (Issuer Not Co-operating)
	Term Loan	Long Term	2.20	ACUITE BB+ (Issuer Not Co-operating)
	Cash Credit	Long Term	5.00	ACUITE BB+ (Issuer Not Co-operating)
	Proposed Bank Facility	Long Term	1.40	ACUITE BB+ (Issuer Not Co-operating)
06-Jul-2018	Term Loan	Long Term	2.20	ACUITE BB+/Stable (Assigned)
	Packing Credit	Long Term	18.40	ACUITE BB+/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BB+/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.40	ACUITE BB+/Stable (Assigned)
20-Dec-2017	Cash Credit	Long Term	5.00	ACUITE BB+/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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	21.00*	ACUITE BB/Stable (Downgraded)
Foreign Currency Term loan-I	September, 2018	Not Applicable	May 31, 2022	1.33	ACUITE BB/Stable (Assigned)
Foreign Currency Term loan-II	September, 2018	Not Applicable	August 31, 2021	0.36	ACUITE BB/Stable (Assigned)
Foreign Currency Term loan-III	September, 2019	Not Applicable	September, 2024	1.70	ACUITE BB/Stable (Assigned)
Warehouse Receipt Financing	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/Stable (Downgraded)
Proposed bank Facility	Not Applicable	Not Applicable	Not Applicable	3.26	ACUITE BB/Stable (Downgraded)

*Packing Credit of Rs.21.00crore includes sublimit of cash credit and letter of credit to the extent of Rs.5.00crore and Rs.2.00crore respectively.

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager- Rating Desk Tel:022-49294011 rating.desk@acuite.in
Kumar Abhisek Analyst- Rating Operations Tel:011-49731308 kumar.abhisek@acuite.in	

About Acuité Ratings & Research:

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