

Press Release

Valbe Foods (India) Private Limited

August 22, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 12.00 Cr.
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 12.00 crore bank facilities of VALBE FOODS (INDIA) PRIVATE LIMITED.

The re-affirmation of the rating reflects moderate business risk profile, backed by promoter's extensive experience and established track record of operations. These strengths are partially offset by moderate financial risk profile and high working capital intensive nature of its operations.

Valbe Foods (India) Private Limited (Valbe) was incorporated in November 2008 and promoted by Mr. Balakrishna Tati. The company is a 100 per cent Export Oriented (EOU) food processing unit for gherkins. It is located at Survey No.63 & 64 Kavadipally village, Ranga Reddy district in Telangana with an installed capacity of 9000 tons per annum. The company processes and exports semi-processed gherkins in barrels to international processing food firms and super markets particularly to Russia. The company supplies in bulk form packed in 260 Liters food grade H.D.P.E. (High Density Polyethylene) drums, processed and preserved in vinegar, acetic acid and brine.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Valbe to arrive at this rating.

Key Rating Drivers

Strengths

- **Long presence of the promoters and proven track record of Valbe in food processing industry**

Mr. Balakrishna Tati, Mrs. Padma Tati, Mr. Venkateshwarlu Tati, Shri. Indrakanta Handique, Mr. Suresh Seethalam and Mr. Venkateswara Rao Lanka are the promoters of the company with experience in the food processing industry of over two decades. The long presence and proven track record of Valbe in the industry have facilitated in establishing strong association with its key customers which ensures repeat orders. About 75 per cent of its revenues comes from Russia, rest from Spain, Hungary, Canada, among others. All the factors resulted in improving the revenues at a compound annual growth rate (CAGR) of about 20 per cent over three years through FY2019 (Provisional) with revenues of Rs.37.48 crore. Valbe has an unexecuted order book of Rs.44 crore as on July 31, 2019, which is to be executed over the next 6 months that provides adequate revenue visibility over the medium term. Acuite believes that proven operational track record and longstanding presence of the promoters is expected to support in improving its business risk profile over the medium term.

Weaknesses

- **Moderate financial risk profile**

Valbe's financial risk profile is marked by modest net worth, high gearing (Debt-Equity) and total outside liabilities to total network (TOL/TNW), though underpinned by moderate debt protection metrics. Its net worth is modest at about Rs.5.15 crore (Provisional) as of March 31, 2019; low on account of modest accretion to reserves and modest revenue profile in the past till FY2018. Gearing and TOL/TNW though improved marginally, but still high at 2.17 times and 3.86 times (Provisional), respectively, as on March 31, 2019 as against 2.42 times and 4.77 times, respectively, in FY2018. This is due to high working capital intensive operations and major reliance on trade suppliers, besides bank debt. The debt protection metrics of interest coverage ratio (ICR) and net cash

accruals to total debt (NCA/TD) are moderate at 2.50 times and 0.09 times, respectively, for FY2019 (Provisional) vis-à-vis 2.20 times and 0.08 times, respectively, in FY2018. The company has reported cash accruals of Rs.0.96 Crs for FY2019 (Provisional). However, its loan repayment obligations are miniscule at about Rs.0.12 crore against estimated cash accruals of about Rs.1.00-1.35 crore over the medium term. Acuite believes that the financial risk profile is expected to marginally improve over the medium term.

• Working capital intensive operations

Valbe's operations are working capital intensive, as marked by high gross current assets (GCA) of 206 in FY2019 (Provisional) and 229 days in FY2018. They are expected to be at similar levels due to staggered deliverables to its clientele over a period of about 3 months. The inventory days over the past three years have been at about 60-80 days due to peak harvesting season. However, the modest scale of revenues with volatile profitability margins results in stretch in its working capital operations. As a result, the company's bank lines are highly utilised at about 97 per cent over six months through March 31, 2019. Acuite believes that any significant increase in the working capital will have a bearing on the liquidity profile of the company. The availability of gherkin is exposed to agroclimatic conditions and is therefore likely to impact Valbe's revenue prospects. Besides, the seasonal availability of raw material results in working-capital intensive nature of operations during the peak season.

Liquidity Position

Valbe has stretched liquidity characterised by high bank limit utilisation, though sufficient cushion in accruals. Valbe reported cash accruals of Rs.0.96 crore for FY2019 (provisional). Further, repayment obligations are expected to be in the range of Rs.0.12 crore against annual cash accruals of about Rs.1.00-1.35 crore for the medium term. Its operations are working capital intensive with GCA of about 206 days in FY2019 (provisional), which has led to high utilisation of its bank lines at about 98 per cent through July, 2019. The company's current ratio stood at 1.18 times in FY2019 (provisional). Acuite believes that the liquidity profile of Valbe continues to be at similar levels over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	37.48	35.68	28.73
EBITDA	Rs. Cr.	1.85	1.70	1.37
PAT	Rs. Cr.	0.54	0.40	0.29
EBITDA Margin	(%)	4.93	4.75	4.78
PAT Margin	(%)	1.43	1.13	1.00
ROCE	(%)	9.80	9.60	9.43
Total Debt/Tangible Net Worth	Times	2.17	2.42	2.26
PBDIT/Interest	Times	2.50	2.20	2.12
Total Debt/PBDIT	Times	5.64	6.10	6.35
Gross Current Assets (Days)	Days	206	229	218

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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 Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-July-2018	Packing Credit	Short Term	10.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (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
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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