

Press Release

Valbe Foods (India) Private Limited

October 27, 2020



Rating Assigned and Reaffirmed

Total Bank Facilities Rated*	Rs. 15.00 Cr. (Enhanced from Rs.12.00 Cr)
Long Term Rating	ACUITE BB-/Stable (Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 3.00 crore bank facilities and reaffirmed the 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 (Valbe or the company). The outlook is '**Stable**'.

The re-affirmation of the rating reflects the extensive experience of the promoters in the food-processing industry, the company's established track record. These strengths are partially offset by average financial risk profile, stretched working capital cycle and exposure to intense competition.

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 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 supermarkets, particularly to Russia.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Valbe to arrive at the 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 over a decade in the food processing industry have facilitated in establishing a strong association with its key customers which ensures repeat orders. Valbe generates about 75 per cent of its revenues comes from Russia, rest from others. Acuité believes the long experience of promoters in the industry support the company's growth prospects.

Weaknesses

- **Average financial risk profile**

Valbe's financial risk profile is average, marked by modest net worth, high gearing (debt-equity) and total outside liabilities to total networth (TOL/TNW), though underpinned by comfortable debt protection metrics. Its net worth is modest at about Rs.5.87 crore as of March 31, 2020 (Provisional) as against Rs.5.20 crore as of March 31, 2019. Gearing and TOL/TNW through improved marginally, but still high at 1.84 times and 3.85 times respectively, as on March 31, 2020 (Provisional) as against 2.12 times and 4.52 times, respectively, as of March 31, 2019. 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 comfortable at 3.04 times and 0.10 times, respectively, for FY2020 (Provisional) vis-à-vis 2.39 times and 0.09 times,

respectively, in FY2019. The company has reported cash accruals of Rs.0.84 Cr- Rs.1.08 Cr during last three years FY2020 (Provisional) as against repayment obligations of Rs.0.10Cr - 0.12 Cr during the same period. However, its loan repayment obligations are expected to be at about Rs.0.50 Cr- Rs.0.75 against estimated cash accruals of about Rs.1.00-1.35 crore over the medium term. Acuité believes that the financial risk profile is expected to be similar levels over the medium term.

• **Working capital intensive operations**

Valbe's operations are working capital intensive, as marked by high gross current assets (GCA) of 251 in FY2020 (Provisional) as against 234 days in FY2019. They are expected to be at similar levels due to staggered deliverables to its clientele over a period of about 100-141 days and inventory days about 51-76 days over the past three years ended with FY2020 (Provisional). Its creditors days are about have been at about 107-157 days over the past three years ended with FY2020 (Provisional). However, the modest scale of revenues about 34 to 37 Cr during the last three years ended with FY2020 (provisional) with volatile profitability margins results in the stretch in its working capital operations. As a result, the company's bank lines are highly utilised at about 95 per cent over six months through September 2020. Acuité 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: Stretched

Valbe has stretched liquidity characterised by high bank limit utilisation, though sufficient cushion in accruals. The company has reported cash accruals of Rs.0.84 Cr- Rs.1.08 Cr during last three years FY2020 (Provisional) as against repayment obligations of Rs.0.10 Cr-0.12 Cr during the last three years ended with FY2019. However, its loan repayment obligations are estimated about Rs.0.50 Cr- Rs.0.75 against estimated cash accruals of about Rs.1.00-1.35 crore over the medium term. As marked by high Gross Current Assets (GCA) of 251 in FY2020 (Provisional) as against 234 days in FY2019, which has led to high utilisation of its bank lines at about 95 per cent during last six months ended with September 2020. The company's current ratio stood at 1.16 times in FY2020 (provisional) as against 1.14 times in FY2019. Acuité believes that the company's liquidity is expected to remain stretched.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- further deterioration in the working capital cycle leading to further stress on liquidity

Outlook: Stable

Acuité believes that Valbe's will continue to benefit over the medium term due to its experienced management and established relationships with its suppliers and customers. The outlook may be revised to 'Positive', in case better-than-expected revenue and profitability margin or improvement in working capital management leads to better liquidity. Conversely, the outlook may be revised to 'Negative' in case VFPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	34.01	37.48
PAT	Rs. Cr.	0.73	0.58
PAT Margin	(%)	2.13	1.55
Total Debt/Tangible Net Worth	Times	1.84	2.12
PBDIT/Interest	Times	3.04	2.39

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

None

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
22-Aug-2019	Packing Credit	Short Term	10.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Reaffirmed)
05-Jul-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
Working capital demand loan (WCDL)	30-04-2020	Not Applicable	31-05-2022	1.00	ACUITE BB- / Stable (Assigned)
Working capital Term loan (WCTL)	21-07-2020	Not Applicable	31-07-2024	2.00	ACUITE BB- / Stable (Assigned)
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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