

Press Release

Vasudha Marketing Private Limited

August 08, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.8.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.8.00 crore bank facilities of Vasudha Marketing Private Limited (VMPL). The outlook is '**Stable**'.

Vasudha Marketing Private Limited (VMPL) was incorporated in 2013 by Mr. Ramakoteswara Rao Kamineni and his wife, Mrs. Sitamaha Lakshmi as Directors. In June 2017, it became a Del Credere Agent (DCA) of Reliance Industries Limited (RIL) for distribution of RIL's Poly-propylene (PP), Polyethylene (PE) and Polyvinyl Chloride (PVC), High-density polyethylene (HDPE), Low-density polyethylene (LDPE), Linear Low Density Polyethylene (LLDPE) products in the States of Andhra Pradesh and Telangana. The company's operations are managed by Mr Ramakoteswara Rao Kamineni, who has experience of more than two decades in different business verticals. VMPL is also engaged in another vertical business of 'Eucalyptus' plantation under an agreement with GMR Hyderabad International Airport Limited (GMR) for 300 acre of land cultivation for three crop cycles of four years each.

Key Rating Drivers:

Strengths:

Experienced promoters and diversified customer and revenue base:

VMPL incorporated in 2014 by Mr. Ramakoteswara Rao Kamineni is engaged in trading of polymer products. Despite short track record in polymer business started in July 2017, business vintage of the promoter helped in creating a customer base of about 30 clients with monthly off-take of about 1000 metric tonnes in FY2018. Further, it has indicative business orders to an extent of about 2500 metric tonnes per month from various manufacturers in the industry. Also, the company diversified into plantation of 'Eucalyptus' in 300 acres of land under lease and revenue sharing arrangement with GMR. The plantation comes once in three years for harvesting and the arrangement is for three cycles of plantation. Acuite believes that VMPL's business risk profile is expected to improve with multiple revenue streams, though the agricultural operations are of cyclical nature.

Healthy demand outlook for various polymers and chemicals in India:

Domestic market is expected to see growth of plastic processing from end-user industries such as plastic sheeting for ducts and appliance hood, industrial container manufacturers, kitchen cutting boards, blow moulding, injection moulding and packaging.

Weaknesses:

Below average financial profile:

VMPL's financial risk profile is marked by low net worth, high gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) though underpinned by average debt protection metrics. Its net worth is modest at about Rs.0.97 crore (Provisional) as on March 31, 2018, which is low being first year of operations with modest commission on consignment business of about Rs.0.30 crore. TOL/TNW is high at 2.91 times and gearing stood at 2.55 times as on March 31, 2018 (Provisional). The debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are average at 1.89 times and 0.07 times respectively for FY2018 (Provisional). Acuite believes that the

financial risk profile is expected to improve on the back of expected improvement in its business risk profile and accretion to reserves over the medium term.

Modest scale of operations in DCA/CS (Del Credere agency) business, and exposed to counter party credit risk:

VMPL acts as a Del Credere agent (DCA) for RIL. For FY2019, VMPL propose to clear atleast 30,000 metric tonnes (MT) of material, against about 6000 MT for about six months of operations in FY2018 (Provisional). Despite such a high volume, the expected revenue from commission is about Rs.1.00 crore. VMPL sells polymers on behalf of RIL by placing the customer's order with RIL and coordinating the sale, dispatch and transportation of materials. Although the ownership of the goods is not transferred to VMPL, the company guarantees payment to RIL on behalf of its customers. The company is eligible for only commission and incentives on sales of PP, PE and PVC products; whereas it has to make payments immediately and collect the sales proceeds from the customers over a relatively longer period, which exposes the company to counterparty credit risk. This exposes VMPL to high receivable risk.

High competition intensity:

VMPL is involved in sales and distribution of PP, PE, PVC products manufactured by RIL in Andhra Pradesh and Telangana region. It faces stiff competition from DCA/CS agents of other principals like GAIL (India) Limited, Brahmaputra Cracker and Polymer Limited (BCPL), Indian Oil Corporation Limited (IOCL), Mangalore Refinery and Petrochemicals Limited (MRPL), Oil and Natural Gas Corporation Limited (ONGC). The competition limits the sales volume and thus constraining the revenue potential.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the VMPL to arrive at this rating.

Outlook: Stable

Acuite believes that the outlook on VMPL will remain 'Stable' over the medium term on the back of the extensive experience of its promoter, and its agreement with RIL. The outlook may be revised to 'Positive' if the company registers substantial growth in revenues and profitability while improving the financial risk profile. The outlook may be revised to 'Negative' if the cash accruals are lower than expected, or any stretch in its working capital cycle weakening its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov.)
Operating Income	Rs. Cr.	0.31
EBITDA	Rs. Cr.	0.23
PAT	Rs. Cr.	0.17
EBITDA Margin	(%)	73.82
PAT Margin	(%)	55.10
ROCE	(%)	13.05
TOL/Tangible Net Worth	Times	2.91
Gross Current Assets (Days)	Days	3674

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B / Stable (Assigned)
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Assigned)

Contacts

Analytical	Rating Desk
<p>Sri Hari Adari Head - Rating Operations Tel: +91 40-4027 4590 srihari.adari@acuite.in</p> <p>Bhavani Sankar Oruganti Sr. Rating Analyst - Rating Operations Tel: +91 40-4005 5452 bhavanisankar.oruganti@acuiteinratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.