

## Press Release

### Vasudha Marketing Private Limited

August 22, 2019

#### Rating Downgraded and Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 8.00 Cr.
<b>Long Term Rating</b>	ACUITE B- / Outlook: Stable (Downgraded from ACUITE B/Stable)
<b>Short Term Rating</b>	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuite has downgraded long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) from **ACUITE B/Stable** and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 8.00 crore bank facilities of VASUDHA MARKETING PRIVATE LIMITED. The outlook is '**Stable**'.

The rating downgrade reflects less-than-expected revenues and profitability; the rating also factors in below average financial risk profile and working capital intensive operations. However, the ratings factors in longstanding presence of the promoters in the industry.

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) across 300 acre of land.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

##### • Experienced management

VMPL incorporated in 2014 by Mr. Ramakoteswara Rao Kamineni is engaged in trading of polymer products. Also, the company is 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. The company has reported revenue of Rs.1.07 Crs in FY2019 (provisional) as against Rs.0.45 Crs in FY2018. Acuite believes that VMPL's business risk profile is expected to marginally improve with multiple revenue streams, though the agricultural operations are of cyclical nature.

##### Weaknesses

##### • Below average financial risk profile

VMPL's financial risk profile is marked by low net worth, high gearing (debt-to-equity), and total outside liabilities to total net worth (TOL/TNW) though underpinned by average debt protection metrics. Its net worth is modest at about Rs.1.04 crore (Provisional) as on March 31, 2019. TOL/TNW is high at 2.92 times and gearing stood at 2.58 times as on March 31, 2019 (Provisional) as against TOL/TNW of 3.20 times and gearing of 2.79 times as on March 31, 2018. The debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are average at 1.36 times and 0.06 times, respectively, for FY2019 (Provisional) as against ICR 1.48 times and NCA/TD 0.04

times in FY2018. Acuite believes that with modest accruals, the financial risk profile is expected to be at similar levels over the medium term.

• **High working capital intensive operations**

VMPL's operations are working capital oriented, as reflected in its high Gross Current Asset (GCA) days of 720 as on March 31, 2019 (Provisional). The high GCA is mainly attributed to high debtor days of 175 and high inventory days of 1077 for FY2019 (Provisional) as against high debtor days of 797 days in FY2018 and high Inventory days of 3935 days in FY2018. Its bank limits are utilised at 45 per cent over last six months through July 2019. Acuite believes that the working capital operations are expected to remain high due to the nature of business, thereby, stretching the receivable and high inventory holding period.

**Liquidity Position:**

Liquidity profile of VMPL is stretched reflected by modest accruals, though partly supported by moderate bank limit utilisation. It has reported cash accruals of Rs.0.15 crore in FY2019 (provisional). It is expected to generate cash accruals in the range of Rs.0.10-0.25 crore over the medium term, against which it has no repayment obligations. Its working capital limits are utilised at about 45 per cent for the last six months through July 2019. Acuite believes that its liquidity continues to be at similar levels owing to modest operations and accruals, and high GCA.

**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 its capital structure. 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1.07	0.45	0.00
EBITDA	Rs. Cr.	0.56	0.31	0.04
PAT	Rs. Cr.	0.15	0.09	-0.03
EBITDA Margin	(%)	52.36	69.36	0.00
PAT Margin	(%)	13.75	19.82	0.00
ROCE	(%)	15.73	11.19	2.45
Total Debt/Tangible Net Worth	Times	2.58	2.79	1.70
PBDIT/Interest	Times	1.36	1.60	0.59
Total Debt/PBDIT	Times	4.79	7.93	36.01
Gross Current Assets (Days)	Days	720	2225	0

**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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
08-Aug-2018	Secured Overdraft	Long Term	3.00	ACUITE B / Stable (Assigned)
	Proposed Secured Overdraft	Long Term	1.00	ACUITE B / Stable (Assigned)
	Bank Guarantee	Short Term	4.00	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
Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B- / Stable (Downgraded from ACUITE B/Stable)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)

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**About Acuité Ratings & Research:**

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