

Press Release

Sri Varsha Food Products India Limited

December 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BBB- Negative Assigned	-
Bank Loan Ratings	61.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	11.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	84.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long term rating to '**ACUITE BBB-**' (read as **ACUITE t riple B 'minus'**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.72.00 Cr bank facilities of Sri Varsha Food Products India Limited (SVFPIL). The outlook has been revised from 'Stable' to '**Negative**'.

Acuité has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE t riple B 'minus'**) on the Rs.12.00 Cr bank facilities of Sri Varsha Food Products India Limited (SVFPIL). The outlook is '**Negative**'.

Rationale for the rating

The revision in outlook reflects the deterioration in earnings before interest, tax and depreciation (EBITDA) margins since last two years ending FY2022 on account of increasing prices of its key raw material (Mangoes) and its inability to timely recover the cost escalations from its key customers. The EBITDA margins declined from 10.78 percent in FY2020 to 8.76 percent in FY2021 and 6.27 percent in FY2022. SVFPIL's management has intimated Acuité that the same has been now recovered and these key customers have now agreed for passing on price hikes on a day-to-day basis leading no such deterioration in its profitability margins. The same reflects in the year-to-date performance wherein the EBITDA margins have crossed FY2020 levels.

The rating continues to favorably factor in its experienced promoters, established track record in Andhra Pradesh, stable scale of operations. The rating also factors in its moderate financial risk profile marked by a moderate network and gearing. These strengths are partially constrained by its working capital intensive nature of operations, competitive environment in the industry, high concentration of revenue from single product, inherent risk of susceptibility in raw material prices and regulatory risk.

About the Company

Established in 2008 and based in Tirupati (Andhra Pradesh), Sri Varsha Food Products India Limited (SVFPIL) specializes in processing and packaging of natural fruit concentrates and pulp. SVFPIL is promoted by Mr. K. Viswanada Naidu and Mr. V. Pradeep Kumar. SVFPIL has two processing units with total processing capacity of around 32,000 Metric Tons (MT) per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Promoters' extensive experience in food processing industry; Established regional player in Andhra Pradesh**

SVFPIL is promoted by Mr. K. Viswanada Naidu and Mr. V. Pradeep Kumar who has been associated with the company since its inception; this has helped SVFPIL to establish strong market presence in the state of Andhra Pradesh. Mr. K. Viswanada Naidu looks after the day-to-day operations of the company and is assisted by team of experienced professionals down the line. Mr. Naidu has more than 30 years' of experience in multiple businesses and has set up the first highly modernized fruit processing unit in the region. Mr. V. Pradeep Kumar has more than 15 years of experience in Fruit Processing industry and developed good understanding in Food and Drug Administration (FDA) rules and Good manufacturing practice(GMP) in Fruit Processing sector. The revenue of SVFPIL has grown at a stable rate for last three years ending FY2022. The operating income has increased to Rs.161.64 Cr in FY2022 from Rs.108.63 Cr in FY2021, further, SVFPIL has achieved revenue of Rs.133.59 Cr for 7MFY2023. SVFPIL caters to its international customers by exporting mango pulp, natural fruit concentrates and fruit purees to global players across Europe, US and the Middle East. Acuité believes that SVFPIL will continue to derive benefits from its promoter's experience, its established presence and diversified geographical coverage providing healthy revenue visibility over the medium term.

- **Moderate financial risk profile**

The company has moderate financial risk profile, is marked by moderate net worth, gearing and debt protection metrics. The net worth of the company stood at Rs.36.01 Cr and Rs.34.71 Cr as on March 31, 2022 and 2021 respectively. The improvement is on account of moderate accretion of net profit in the reserves during the period. The gearing of the company has been deteriorated in FY2022. It stood at 1.54 times as on March 31, 2022 against 1.06 times as on March 31, 2021. The deterioration is on account of increase in short term limits. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 1.80 times and 1.06 times as on March 31, 2022 respectively as against 1.86 times and 1.07 times as on March 31, 2021 respectively. TOL/TNW stood at 2.21 times and 1.71 times as on March 31, 2022 and 2021 respectively. The debt to EBITDA of the company stood at 5.46 times as on 31 March, 2022 as against 3.54 times as on March 31, 2021. Acuité expects the financial risk profile to remain healthy over the medium to long term period on account of moderate capital structure and stable operations of SVFPIL.

- **Presence of assured orders**

SVFPIL has an assured order of around Rs.167.13 Cr as on October 31, 2022 from its regular customers with vintage over 10 years. The revenue in a given year wouldn't deteriorate below Rs.160 Cr as these are assured orders from the existing customers base. There exists a mutual understanding established between these customers and SVFPIL over the years. SVFPIL has assured orders from its customers such as Varun Beverages Limited, Jain

Farm Fresh Foods Limited, Nestle Limited amongst others. Despite, the global pandemic, almost all of the assured orders were placed by its existing customers and delivered by SVFPIL. Acuité believes that SVFPIL will continue to derive benefits from these assured orders providing adequate revenue visibility over the near to medium term.

- **SVFPIL aiming for diversification in its product line to reduce revenue concentration**

SVFPIL's flagship product has been mango pulp and concentrate over the years since inception. The management in the last few years has been venturing into various other nonseasonal fruits and vegetables to reduce dependence on seasonal fruit i.e. Mango. SVFPIL's revenue from Green Chilli Paste, Pink Guava Pulp, Red Chilli Paste, Red Papaya Pulp, Tamarind Paste has shown improvement Year-on-Year (YoY) basis. Acuité believes that SVFPIL's ability to diversify into other non-seasonal fruits and vegetables will remain key driver for ensuring healthy business risk profile.

Weaknesses

- **Working capital intensive operations**

The working capital management of the company remained intensive with high gross current assets (GCA) days at 224 days as on March 31, 2022 as against 264 days as on March 31, 2021. The GCA days are majorly marked by moderate inventory and debtor days. Inventory days stood at 108 days as on March 31, 2022 as against 164 days as on March 31, 2021. Subsequently, the payable period stood at 48 days as on March 31, 2022 as against 49 days as on March 31, 2021 respectively. The debtor day stood at 57 days as on March 31, 2022 as against 71 days as on March 31, 2021. Further, the average consolidated bank limit utilization in the last twelve months ended September, 2022 remained at 79 percent for fund based. Acuité believes that the operations of SVFPIL will remain moderately working capital intensive on account of nature of the food processing industry.

- **Seasonal nature of business; Concentration from single product**

SVFPIL operates in seasonal industry and hence remain vulnerable to agro climatic risk. As SVFPIL deals with fruits and vegetables, the prices of fruit pulp are vulnerable to vagaries of nature. Further, mango pulp and concentrates accounts for around 90 percent of total sales leading to high product.

- **Susceptible to volatility in raw material prices and regulatory risks**

The food processing and export business is highly fragmented with presence of several small players and dependence on fruits farms for raw material which limits bargaining power. Additionally, the procurement price of fruits depends on the season and availability during a particular period, which exposes SVFPIL to volatility in product prices. The industry has low entry barriers such as low capital, low technical requirements of the business and liberal policy regime. This has resulted in severe competition and inherently thin profitability margins. Furthermore, as a portion of revenue is generated from exports, credit risk profile remains susceptible to volatility in forex rates. Besides, SVFPIL is also exposed to risk arising from regulatory changes and demand pattern in client countries and changes such as levy of antidumping duties by importing countries.

Rating Sensitivities

Positive

- Higher-than-expected improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by adequate cash accruals in the range of Rs.3.79 Cr in FY2022 as against its maturing long term debt obligations in the range of Rs.3.28 Cr for the same period. The current ratio stood at 1.68 times as on March 31, 2022. Unencumbered cash and bank balances stood at Rs. 0.12 Cr as on March 31, 2022. SVFPL is expected to generate net cash accruals (NCA) in range of Rs.6.16-7.60 Cr against modest maturing debt obligations in range of Rs.3.84 -4.14 Cr over the medium term. Acuité believes that the liquidity of the company will improve supported by increase in accruals in the medium term.

Outlook: Negative

Acuité has revised the outlook on SVFPIL to 'Negative' on account of deteriorated profitability margins since last two years ending FY2022. The rating may be 'downgraded' if there is higher-than expected decline in its revenues or profitability or elongation in working capital cycle. Outlook may be revised to 'Stable' if the company is able to show significant improvement in profitability margins, liquidity profile, leverage ratios.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	161.64	108.63
PAT	Rs. Cr.	1.70	1.65
PAT Margin	(%)	1.05	1.52
Total Debt/Tangible Net Worth	Times	1.54	1.06
PBDIT/Interest	Times	1.80	1.86

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

CRISIL Ratings vide its press release dated September 17, 2021 had denoted the rating of Sri Varsha Food Products India Limited (SVFPIL) as "ISSUER NOT CO-OPERATING" on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels

of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Jan 2022	Term Loan	Long Term	1.45	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	1.01	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.80	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	3.50	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	1.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	6.26	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.31	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	1.67	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BBB- Negative Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Negative Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3 Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.83	ACUITE BBB- Negative Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Mar 10 2016 12:00AM	Not available	Oct 10 2023 12:00AM	Simple	3.31	ACUITE BBB- Negative Reaffirmed Stable to Negative
Small Industries Development Bank of India	Not Applicable	Term Loan	Jan 11 2021 12:00AM	Not available	Mar 10 2026 12:00AM	Simple	1.45	ACUITE BBB- Negative Reaffirmed Stable to Negative

Small Industries Development Bank of India	Not Applicable	Term Loan	Jan 11 2021 12:00AM	Not available	Jan 10 2026 12:00AM	Simple	1.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Small Industries Development Bank of India	Not Applicable	Term Loan	Jan 11 2021 12:00AM	Not available	Jan 10 2026 12:00AM	Simple	4.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Small Industries Development Bank of India	Not Applicable	Term Loan	Mar 25 2019 12:00AM	Not available	Aug 10 2024 12:00AM	Simple	0.80	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.17	ACUITE BBB- Negative Assigned
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.67	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.01	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	6.26	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of	Not	Working Capital	Not	Not	Not	Simple	3.50	ACUITE BBB- Negative

India	Applicable	Term Loan	available	available	available			Reaffirmed Stable to Negative
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Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Moparthy Anuradha Devi Analyst-Rating Operations Tel: 022-49294065 moparthy.anuradha@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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