



Press Release

VALENCY AGRO PRIVATE LIMITED (ERSTWHILE NIKHIL MERCANTILE PRIVATE LIMITED)

December 21, 2023

Rating Reaffirmed and Upgraded

Product	Amt(Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00	ACUITE BB+ Stable Upgraded	-
Bank Loan Ratings	30.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and has reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.100.00 Cr bank facilities of Valency Agro Private Limited [VAPL] (erstwhile Nikhil Mercantile Private Limited). The outlook remains '**Stable**'.

Rationale for rating

The rating factors in improvement in the business risk profile as reflected from its steady top line and improved operating margin. The rating derives comfort from the parent company's support and the diversification in the product profile.

These strengths are, however, offset by the moderate financial risk profile, the working capital intensive nature of operations of the company and the exposure to volatility in the raw prices.

About the Company

Incorporated in 2007, Nikhil Mercantile Private Limited (NMPL) has changed its name to Valency Agro Private Limited (VAPL) in April, 2023. The company is based in Udupi, Karnataka and managed by Mr. Sumit Jain and Mr. Basba Nand Balodi. VAPL is engaged in the processing of cashew kernels along with the trading of raw cashew nuts (RCN), pulses, sesame and other agro products. The company is a 100 per cent subsidiary of Valency International Pte Limited (VIPL).

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of VAPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management

VAPL is managed by Mr. Sumit Jain, Mr. Basba Nand Balodi and Mr. Nitesh Patwari who have an experience of over a decade in the processing and trading of agro based products. The

company is further supported by the parent company as and when required by way of infusion of capital. Acuité derives comfort from the vintage of the promoters and the strong support from the parent company.

Steady scale of operations

The scale of operations of the company stood at Rs.302.09 Cr in FY2023 as against Rs.302.21 in FY2022. The revenue level is supported by the diversified stream of revenue arising out of processing of cashew kernels along with trading of raw cashew nuts, sesame, pulses and other agro products. Further, the company has achieved revenues of Rs.167.96 Cr in H1FY2024.

The operating margin of VAPL improved to 3.70 per cent in FY2023 from 2.92 per cent in FY2022 due to operational efficiencies. In FY2023, the company has leased in the processing unit in Gujarat which was previously an outsourcing facility. In addition to this, VAPL has leased in a factory in Kundli (Delhi-Haryana border) in order to cater to the demand in Delhi NCR. However, the PAT margin slightly dipped to 1.21 per cent in FY2023 from 1.46 per cent in FY2022 due to rise in the interest cost.

Acuité believes that, going forward, the diversified revenue base will continue to support the steady business risk profile of the company.

Weaknesses

Moderate financial risk profile

The company's financial risk profile is marked by moderately rising adjusted networth and gearing along with comfortable debt protection metrics. The adjusted tangible net worth of the company increased to Rs.25.63 Cr as on 31st March, 2023 from Rs.16.79 Cr as on 31st March, 2022 due to accretion of reserves and infusion of capital to the tune of Rs.2 Cr by Valency International Pte Limited. Acuité has considered unsecured loans of Rs.5.51 Cr as part of networth as the loans are subordinated to bank debts. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio at 2.61 times and Debt Service coverage ratio at 1.99 times as on 31st March, 2023. However, the gearing moderated to 1.15 times as on 31st March, 2023 from 0.77 times as on 31st March, 2022 owing to increase in the working capital borrowings over the same period. In addition to this, due to the stretched creditor period, the Total outside Liabilities/Tangible Net Worth (TOL/TNW) deteriorated to 5.02 times as on 31st March, 2023 as compared to 3.50 times in the previous year. The Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.17 times as on 31st March, 2023.

Acuité believes that the financial risk profile will remain moderate over the medium term backed by steady accruals and in absence of any major debt funded capex plans.

Working capital intensive nature of operations

The working capital cycle of VAPL is marked by Gross Current Asset (GCA) days of 160 days in FY2023 as compared to 69 days in FY2022. The rise in GCA days is mainly on account of increase in the other current assets and rise in the debtor cycle. The other current assets rose mainly due to increase in the advances paid to suppliers which went up to Rs.13.62 Cr in FY2023 from Rs.1.11 Cr in FY2022. Further, the company performed bulk trading of pulses during the year end of FY2023 which led to stretch in the debtor and creditor cycle. The debtor period rose to 86 days as on March 31, 2023 from 17 days as on 31st March 2022. The creditor period increased to 107 days in FY2023 from 44 days in FY2022. However, the inventory period stood comfortable at 41 days in FY2023 as against 39 days in FY2022.

Acuité believes that, going forward, the working capital cycle is expected to remain intensive on account of elongation in the receivable cycle and high other current assets of the company.

Susceptibility to climatic conditions and volatility in raw material prices

Competition in the cashew processing industry is intense due to the presence of a large number of unorganised players in the market. The availability and quality of raw cashew nut is dependent on adequate and timely monsoon. Also, production may be impacted by pests or crop infection.

Rating Sensitivities

- Growth in the scale of operations while improving profitability margins
- Improvement in the capital structure of the company

- Further, elongation in the working capital cycle

All Covenants

None

Liquidity Position

Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.5.12 Cr in FY2023 as against long term debt repayment of Rs.0.45 Cr over the same period. The current ratio is moderate at 1.07 times as on 31st March, 2023 as compared to 1.03 times as on 31st March, 2022. The cash and bank balances of the company stood at Rs.3.77 Cr in FY2023 as compared to Rs.2.02 Cr in FY2022. However, the company's working capital cycle is marked by Gross Current Asset (GCA) days of 160 days in FY2023 as compared to 69 days in FY2021 due to stretch in the debtor cycle and rise in the other current assets. However, the fund based limit utilisation is low at 19 per cent over the six months ended September, 2023.

Acuité believes that going forward the liquidity position of the company will remain adequate owing to steady cash accruals.

Outlook: Stable

Acuité believes the outlook on VAPL will remain 'Stable' over the medium term backed by its experienced management, support from the parent company, established clientele base and the steady business risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenues while achieving sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins or deterioration in the financial risk profile or further elongation in the working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	302.09	302.21
PAT	Rs. Cr.	3.65	4.42
PAT Margin	(%)	1.21	1.46
Total Debt/Tangible Net Worth	Times	1.15	0.77
PBDIT/Interest	Times	2.61	5.32

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.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, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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
07 Nov 2023	Bills Discounting	Short Term	5.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	35.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	10.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Short Term Loan	Short Term	5.00	ACUITE A4+ (Issuer not co-operating*)
	Inventory Funding	Long Term	45.00	ACUITE BB (Downgraded and Issuer not co-operating*)
23 Jan 2023	Bills Discounting	Short Term	5.00	ACUITE A4+ (Assigned)
	Short Term Loan	Short Term	5.00	ACUITE A4+ (Assigned)
	Inventory Funding	Long Term	45.00	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Assigned)
01 Nov 2021	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Warehouse Receipt Financing	Long Term	15.00	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
ICICI Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4+ Reaffirmed
Yes Bank Ltd	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BB+ Stable Upgraded
HDFC Bank Ltd	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BB+ Stable Upgraded
RBL Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BB+ Stable Upgraded
Tata Capital Limited	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4+ Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Geeta Karira Analyst-Rating Operations Tel: 022-49294065 geeta.karira@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.

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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.