

Press Release

VALENCY AGRO PRIVATE LIMITED (ERSTWHILE NIKHIL MERCANTILE PRIVATE LIMITED)
January 29, 2024



Product	Rating (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE BB+ Reaffirmed & Withdrawn	-
Bank Loan Ratings	25.00	Not Applicable Withdrawn	-
Bank Loan Ratings	30.00	-	ACUITE A4+ Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B Plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.75.00 Cr bank facilities of Valency Agro Private Limited [VAPL] (erstwhile Nikhil Mercantile Private Limited). Further Acuite has withdrawn the **proposed** long term ratings on Rs 25 crore without assigning any rating.

The rating withdrawal is in accordance with Acuite's policy on withdrawal of ratings as applicable to the respected facility/ instrument. The rating is being withdrawn on account of request received from the VAPL and no objection certificate (NOC) received from the bankers.

Rationale for Rating Reaffirmation

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.

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.

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.

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

Not Applicable

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

Outlook:Not Applicable

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
21 Dec 2023	Bills Discounting	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Inventory Funding	Long Term	25.00	ACUITE BB+ Stable (Upgraded from ACUITE BB)
	Inventory Funding	Long Term	20.00	ACUITE BB+ Stable (Upgraded from ACUITE BB)
	Short Term Loan	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	25.00	ACUITE BB+ Stable (Upgraded from ACUITE BB)
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	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)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (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 avl. / Not appl.	Bills Discounting	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A4+ Reaffirmed & Withdrawn
Yes Bank Ltd	Not avl. / Not appl.	Inventory Funding	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BB+ Reaffirmed & Withdrawn
HDFC Bank Ltd	Not avl. / Not appl.	Inventory Funding	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE BB+ Reaffirmed & Withdrawn
RBL Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A4+ Reaffirmed & Withdrawn
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	Not Applicable Withdrawn
Tata Capital Limited	Not avl. / Not appl.	Short-term Loan	Not avl. / Not appl.	Not avl. / Not appl.	10 May 2025	Simple	5.00	ACUITE A4+ Reaffirmed & Withdrawn

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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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