



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Vardhaman Salts Private Limited

November 27, 2019

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
Long Term Bank Facilities- (Proposed)	0.10	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)
Short Term Bank Facilities- (Proposed)	7.90	IVR A4+ (IVR A Four Plus)
Total	8.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Vardhaman Salts Private Limited (VSPL) draws comfort from extensive experience of the promoters, wide dealer network coupled with sole distribution rights for Patanjali Ayurveda Limited's (PAL) products in five districts of West Bengal. The ratings also factors in stable demand prospect for Ayurveda products. However, the rating strengths are partially offset by its small scale of operations with vulnerability of business exposed to any adverse changes in regulations and brand image, Intense competition faced from other large established organised players in the FMCG sector and modest financial risk profile marked by thin margin and moderate debt protection metrics.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure

Downward factor:

- Moderation in the capital structure with deterioration in overall gearing to more than 2x
- Any moderation in cash accruals leading to deterioration in liquidity profile



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoter

The promoter, Mr. Mahendra Sharma is having a vast business experience of about three decades. The long standing experience of the promoters supports the business risk profile of the company to a large extent.

Wide dealer network

The Sharma family was in salt (unbranded) trading business earlier and has strong sales and distribution network. Presently, the company is operating in five districts with a network of more than 300 dealers and retailers.

Sole distribution rights for Patanjali Ayurveda Limited (PAL) products in five districts of West Bengal

VSPL is a super distributor for PAL products in five districts of West Bengal having exclusive distribution rights.

Stable Demand Prospect for Ayurveda Products

The demand outlook for ayurvedic products remains stable. PAL is one of the key players in the industry having a diverse product portfolio comprising over 460 products in the categories ranging from Ayurvedic medicines and products, FMCG healthcare, bodycare, dental care, DVDs and CDs. Ayurvedic products due to its perceived for health benefits has witnessed steady demand over past few years and consequently, PAL has also registered strong revenue growth with regular addition of new products and increased brand penetration.



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Key Rating Weaknesses

Small scale of operations

VSPL's scale of operation remained small with a total operating income of Rs.32.63 crore in FY19 (Prov.). The company has a steady y-o-y growth of ~131% in FY19 backed by increased market penetration and demand of PAL products. Further, the Company registered total operating income of Rs.14.38 crore in H1FY20. Small scale of operations limits the economics of scale benefits.

Vulnerability of business exposed to any adverse changes in regulations and brand image

Being a distributor of PAL products, the fortune of the company is largely inter connected with the brand image and fortune of PAL. Further, being in FMCG and food sector the impact of regulatory changes are also high. Accordingly, the business of VSPL is also vulnerable to those adversities.

Intense competition faced from other large established organised players in the FMCG sector

The FMCG sector is highly competitive with numerous organised and unorganised players, which limits the pricing flexibility of industry participants.

Modest financial risk profile marked by thin margin and moderate debt protection metrics

Owing to the trading nature of the business marked by low value addition and high competition in the FMCG trading segment, the EBITDA margin and PAT margin remained thin. Further, the company has limited pricing flexibility as the procurement price as well as selling price is governed by the contract of VSPL with PAL. Due to low profitability the cash accruals of the company also remained low at Rs.0.36 crore. The capital structure of the company remained moderate marked by overall gearing of 1.39x as on March 31, 2019. However, the total indebtedness of the company remained satisfactory at 3.11x as on March 31, 2019 (Prov.). However, though the interest coverage ratio remained satisfactory at 2.3x, due to low cash



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accruals, Total debt to GCA remained high at 15.39 years in FY19. The working capital limit utilisation remained satisfactory at ~38% in the past twelve months ended on October, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate marked by no near term debt repayments and moderate cash accruals. The liquidity profile is further aided by its low cash credit utilisation of ~37% during the past 12 months ended October, 2019 providing adequate buffer.

About the Company

Vardhaman Salts Private Limited (VSPL), incorporated on September 26, 1997 was promoted by the one Sharma family of Asansol, West Bengal, with Mr. Mahendra Sharma being the main promoter. The Sharma family has diversified business interests in various industries like trading/distribution, construction, manufacturing of Extra Neutral Alcohol (ENA), salt manufacturing and manufacture of sponge. The promoters started VSPL as their distribution arm for distribution. Initially the company was dealing in lands and presently it is engaged in distribution of Patanjali Salts and entire range of products (Natural Personal Care, Natural Health Care, Natural Food Products, Ayurvedic Medicines, Herbal Home Care, Patanjali Publication, etc.) of Patanjali Ayurved Limited (PAL) for five districts of West Bengal.



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Financials:

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	14.15	32.63
EBITDA	0.33	0.85
PAT	0.16	0.35
Total Debt	2.10	5.54
Tangible Net worth	3.64	3.99
EBITDA Margin (%)	2.33	2.60
PAT Margin (%)	1.10	1.07
Overall Gearing Ratio (x)	0.58	1.39

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	
1.	Long Term Fund Based Limits –Cash Credit (Proposed)	Long Term	0.10	IVR BB/Stable	-	-	-	
2.	Short Term Fund Based Limits – e-DFS Facility (Proposed)	Short Term	7.90	IVR A4+	-	-	-	

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	Proposed	-	-	0.10	IVR BB/Stable
Short Term Bank Facilities – e-DFS Facility	Proposed	-	-	7.90	IVR A4+