Press Release

Vindeshwari Exim Pvt Ltd.

February 20, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned	Rating Action
Long Term Bank Facilities - Term Loan	17.32	IVR BB+ ;Positive (IVR Double B Plus with Positive Outlook)	Rating reaffirmed and outlook revised from Stable to Positive
Long Term Fund Based Facilities	2.00	IVR BB+ ;Positive (IVR Double B Plus with Positive Outlook)	Rating reaffirmed and outlook revised from Stable to Positive
Non-Fund Based Facilities	30.00	IVR A4+ (IVR A Four Plus)	Reaffirmed
Proposed Fund Based/Non-Fund Based Facilities	3.68	IVR BB+/ Positive Outlook/IVR A4+ (IVR Double B Plus with Positive Outlook/ IVR A Four Plus)	Rating reaffirmed and outlook revised from Stable to Positive
Total	**53.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Vindeshwari Exim Pvt Ltd (VEPL) continues to derive strength from its experienced management and support of unsecured loan, established relationship with suppliers and customers, order backed nature of its business, comfortable capital structure and debt protection metrics, diversification initiatives through manufacturing of reputed IMFL brands and high entry barriers in IMFL industry. The rating strengths, however, are tempered by its moderate scale of operations, thin profit margin, volatility related to foreign exchange fluctuations and highly fragmented nature of the industry with volatility related to international edible oil prices. The outlook has been revised from stable to positive on account of expected improvement in its scale of operations with consequent improvement in its overall financial risk profile on the back of commencement of bottling unit and agreement entered with reputed liquor companies like United Spirits Ltd and Radico Khaitan Limited for bottling of their brands in the state of Uttarakhand.

Key Rating Sensitivities

Upward Rating Factors

- Stabilization of bottling unit operations leading to growth in scale of operations with improvement in profit margin leading to improvement in liquidity on a sustained basis
- Improvement in capital structure

Downward Rating Factors

- Decline in revenue and profitability on a sustained basis
- Any weakening of its liquidity position or a decline in interest coverage lower than 1.20 times on a sustained basis
- Deterioration in capital structure with overall gearing at more than 1.5x
- Any withdrawal of subordinated unsecured loans from the business

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced management and support through unsecured loans

The promoter of the company, Mr.Varun Gupta has an experience of about 8 years in the edible oil trading industry. The promoters are assisted in the day-to-day operation by a team of professionals having relevant industry experience. Also, the promoters have demonstrated their support towards the company by infusing funds in the form of unsecured loans constantly to support operations. Additional unsecured loan of Rs.4.07 crore was infused as of November 2019.

Established relationship of the group with suppliers and customers

The promoters have been engaged in trading of edible oils for about 8 years. It has developed an established relationship with its customer and supplier base. Further, the group's other entities; RV Wines LLP (RV), Avyukta Agro Impex Pvt Ltd (AAIPL), Smartha Enterprises Pvt Ltd (SEPL) and Anita Oils and Fats Pvt Ltd (AOFPL) are also engaged in same line of business which drives the bargaining power of the company.

Order backed nature of business

The company generally engages in trading based on back-to-back orders from their customers and suppliers. The price is fixed before the shipment takes place. With respect to purchases, the entity opens a 180 days Letter of Credit in favour of suppliers. Meanwhile, it generally gives credit to its customers of a similar period, resulting in minimal funds being blocked in working capital.

Satisfactory capital structure with moderate debt protection metrics

The capital structure of the company continues to remain comfortable despite moderation in overall gearing ratio to new terms for capex related to setting up of liquor bottling plant. The overall gearing ratio stood at 0.98x as on March 31, 2019. Further, the debt protection parameter also continues to remain adequate marked by an interest coverage ratio at 1.38x in FY19. However, total indebtedness of the company continues to remain high at 4.31x as on March 31, 2019.

Diversification initiatives through manufacturing of reputed IMFL brands

In order to diversify its operations the VEPL has set up an alcohol-bottling unit in the state of Uttarakhand. The unit commenced its production from November 2019 without any cost run. In addition, the company entered into long term bottling contracts with two established market players of the industry United Spirits Ltd (USL) and Radico Khaitan Ltd (RKL). Agreement with leading players and commencement of bottling operation is expected to support the business risk profile of the company going forward.

High entry barriers in IMFL industry

Liquor policies governing its production and sale are entirely controlled by respective state governments. With all the alcohol consuming states/union territories having their own regulations, tax structures and entry-exit restrictions, it is very difficult for new entrants to get licenses; thus, providing a competitive advantage to the existing players

Steady demand prospects of edible oil industry

The edible oil production in India has remained stagnant over the years, which is insufficient to fulfil the domestic requirements of edible oil. Consequently, the country's dependence on imports has increased over the years and currently around 65-70% of the domestic edible oil requirements are met through imports. The same provides ample growth opportunities to traders like VEPL to scale-up the business though stiff competition exists.

Key Rating Weaknesses:

Moderate scale of operations

Notwithstanding satisfactory y-o-y growth of ~19% in FY19 as compared to FY18 in its total operating income driven by increased market penetration the scale of operations of the company continues to remain moderate with a revenues of Rs.96.01 crore in FY19 as compared to Rs.80.34 crore in FY18, thereby, restricting operational and financial flexibility to some extent. Further, the company has achieved the operating revenue of ~Rs.96 crore till November 30, 2019.

Thin profit margin

Since, the company was purely into trading of edible oils till FY19. Notwithstanding the improvement over the past three years being a trading entity with limited value additions and operating in a highly competitive industry the profit margins continues to remain thin marked by EBITDA margin of 3.87% and PAT margin of 0.54% respectively in FY19. Thin profit margin resulted in low cash accruals for the company. Further, bottling segment is also a low margin operation and lacks pricing power.

Exposure to risk of foreign exchange fluctuation

The company is exposed to risk of adverse movement in foreign exchange. The company generally imports from countries like Singapore, Malaysia & UAE while sales to counterparties in India are made on high sea basis. The company generally deals in USD with respect to purchases, whereas the sales are generally made in rupee. As the entity operates on a back to back arrangement, this risk is mitigated to a large extent. Further, the entity has obtained Forward Cover facility for about 85-90% of the exposure from the lending bank which also reduces the risk to some extent.

Highly fragmented industry and volatility in international edible oil prices

The edible oil industry is highly fragmented with presence of numerous small players and low entry barriers. Moreover, palm oil prices are majorly influenced by the demand and supply situation in Indonesia and Malaysia and regulations in those countries. The company largely operates on back-to-back purchase and sales order basis hence mitigating the price risk to an extent.

Vulnerability to regulatory changes in the liquor industry

The liquor industry in India is governed by strict government regulations and license regime that differ from state to state. India's states each have their own regulatory controls on the production, marketing and distribution, and even pricing of alcohol. Further, high taxation and duties also make the industry dynamics complex. The business risk profile thus remains vulnerable to any changes in the license authorisation policy, taxes and duty structure.

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 its sufficient cushion in accruals vis-a-vis its sufficient cash accruals to meet the debt repayment obligation. Further, with a gearing of 0.98x as on March 31, 2019 the company has moderate gearing headroom. The company generally relies on its non-fund based facility and does not utilize its fund based facility. Hence, its unutilized bank lines are also expected to supports its liquidity to an extent.

About the Company

Vindeshwari Exim Pvt Ltd (VEPL) is engaged in the trading of edible oils (mainly crude palm oil). The company commenced operation 2014 onwards. Further, recently they have started a liquor bottling unit in Uttrakhand. The liquor bottling operations commenced from November, 2020. The company is promoted by one Gupta family of Delhi and is presently looked after by Mr. Varun Gupta. The Gupta family also operates other entities which are engaged in similar oil trading operations – RV Wines LLP (Rated: IVR BB/Stable, IVR A4), Avyukta Agro Impex Pvt Ltd (Rated: IVR BB/Stable, IVR A4), Smartha Enterprises Pvt Ltd (Rated: IVR BB+/Positive) and Anita Oils and Fats Pvt Ltd (Rated: IVR BB/Stable/ IVR A4)

Financials (Standalone Basis)

(Rs. crore)

For the year ended / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	80.34	96.01
EBITDA	2.31	3.72
PAT	0.51	0.52
Total Debt	1.24	18.30
Tangible Net worth	11.16	18.71
EBITDA Margin (%)	2.88	3.87
PAT Margin (%)	0.64	0.54
Overall Gearing Ratio (x)	0.11	0.98

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

S. 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.	Term Loan	Long Term	17.32 (Previously 14.00)	IVR BB+/ Positive Outlook	IVR BB+/ Stable Outlook/IVR A4+	--	--
2.	Fund Based Facilities	Short Term	2.00	IVR BB+/ Positive Outlook/IVR A4+	IVR BB+/ Stable Outlook/ IVR A4+	--	--
3.	Non-Fund Based Facilities	Short Term	30.00	IVR A4+	IVR A4+	--	--
4.	Proposed Fund Based/Non-Fund Based Facilities	Long Term/Short Term	3.68 (Previously 7.00)	IVR BB+/ Positive Outlook/IVR A4+	IVR BB+/ Stable Outlook/ 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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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 Debt-Term Loan	-	-	March, 2028	17.32	IVR BB+/ Positive Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	2.00	IVR BB+/ Positive Outlook
Short Term Fund based facilities- LC	-	-	-	30.00	IVR A4+
Proposed Fund Based/Non-Fund Based Facilities	-	-	-	3.68	IVR BB+/ Stable Outlook/ IVR A4 +