Press Release

VRV Foods Limited

April 06, 2021

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Bank Facilities- Long Term	8.75	IVR B+/Stable (IVR B Plus)
2	Bank Facilities- Short Term	16.25*	IVR A4 (IVR A Four)
	Total	25.00	

*Includes proposed limit of Rs. 2.25 crore

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of VRV Foods Limited derives comfort its experienced management, established relationship with suppliers and customers, order backed nature of business, promoter’s support through infusion of funds, high entry barriers in alcohol industry and favourable industry prospects. However, the strengths are partially offset by past delays in servicing of debt, modest scale of operations, moderate financial risk profile, exposure to risk of foreign exchange fluctuation and highly fragmented industry and volatility to international edible oil prices.

Key Rating Sensitivities

Upward Rating Factors

- Continued timely servicing of debt obligations
- Growth in scale of operations and Improvement in financial risk profile and liquidity

Downward Rating Factors

- Decline in revenue and profitability on a sustained basis affecting the liquidity position
- Any further instance of delay in debt servicing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management

The promoter of the company, Mr. Ritesh Gupta has an experience of more than a decade in the edible oil trading industry and liquor manufacturing industry. Further, the promoters are assisted by a team of professionals having relevant industry experience. The promoters have been instrumental in setting up a bottling unit with latest technology infrastructure.

Established relationship with suppliers and customers

The promoters have been engaged in manufacturing and bottling of liquors and trading of edible oils for about 10 years. Over the years, they have developed established relationships with their customers and suppliers. Further, the other entities of promoter's family are also engaged in same line of business, which drives the bargaining power of the company.

Order backed nature of business

The Company operates on an order backed model for their manufacturing and trading division. This supports stable revenue growth. In the trading division, 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.

Promoter's support through infusion of funds

The promoters have supported the operations by infusion of funds when required in the business. The unsecured loan from promoters and body corporates in FY20 stood at Rs. 22.61 crore and has been treated as quasi equity as same has been subordinated by the bank. In FY20, the promoters infused additional Rs. 12 crore.

High Entry Barriers in Alcohol Industry

Liquor policies governing production and sale of liquor are entirely controlled by the 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

Favourable Industry Prospects

Growing disposable incomes, increasing rural consumption, greater acceptance of social drinking and a higher proportion of the young population entering the drinking age, are all factors that make India one of top markets for global spirit companies. These demographics also support the case for the growth of aspirational brands and premium products. Consumer needs and preferences are evolving, and they are now more focused on quality, convenience, value proposition and personalization to suit their styles and values. India has a young 4 demographic profile with a median age of 28 years and around 67% of the population is within the legal drinking age. These two indicators represent significant growth opportunities for the industry.

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 VRV to scale-up the business though stiff competition exists.

Key Rating Weaknesses

Past delays in servicing of debt

The company had delayed the principal repayment on its term debt for the past four years because of poor liquidity. However, the management has instilled various measures and checks to ensure financial discipline which is validated from satisfactory conduct and timely servicing of debt obligations in the months of December 2020, January 2021 and February 2021. The cash flows from business seem adequate to enable the Company to maintain satisfactory conduct going forward.

Modest scale of operations

The overall scale of operations is moderate with revenue of Rs. 80.23 crore in FY20. Further, with the outbreak of Covid-19, the sales for FY21 have been affected with a downward trend of ~20% in the sales from the FY20 level. Though, the Company has demonstrated stable performance post initial 3-4 months after lockdown, the growth of revenue will be monitorable.

Moderate financial risk profile

The debt metrics of the company has been moderate as witnessed by Long term debt to equity ratio on ATNW and overall gearing ratio (ATNW) at 0.25x and 0.39x as on March 31, 2020. The debt protection metrics of the company is weak as marked by ISCR and DSCR at 1.09x and 0.59x as on March 31, 2020. However, promoters had infused long term unsecured loans of Rs. 12 crore in FY20 to support the operations and servicing requirements.

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 90-95% of the exposure from the lending bank which also reduces the risk to some extent.

Highly fragmented industry and volatility to international edible oil prices

Owing to low entry barriers the edible oil trading industry is highly fragmented with presence of numerous organised and unorganised players. 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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading and Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

Liquidity of the company has been severely impacted due to the delays in realization from the customers as a result of business disruption caused by covid-19 pandemic. The company availed the moratorium from the lenders on terms as per bank policy. Further, the company has sufficient gearing headroom driven by infusion of promoters equity of Rs.22.31 crore which has been treated as quasi equity.

About the Company

Incorporated in 1992, VRV Foods Limited is engaged in the manufacturing and bottling of liquors and trading of edible oils (mainly crude palm oil). The manufacturing division contributes close to 65% of the total revenue and the balance ~35% revenue is generated from trading division. VRV manufactures Country Liquor and IMFL in the manufacturing division. The company operates from its plant at Kangra, Himachal Pradesh. The total installed capacity of the manufacturing plant is 15 lac cases annually. This comprises aggregate capacity of both, IMFL and Country Liquor segment.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	82.06	80.23
EBITDA	7.24	2.52
PAT	3.53	0.13
Total Debt	10.11	8.45
Tangible Net worth*	9.14	21.49
EBITDA Margin (%)	8.82	3.14
PAT Margin (%)	4.29	0.16
Overall Gearing Ratio (x)^	1.11	0.39

*Unsecured loan treated as quasi equity

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 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Working Capital Term Loan	Long Term	3.85	IVR B+/Stable (IVR B Plus)	-	-	-
2.	Guarantee Emergency Covid Line	Long Term	1.56	IVR B+/Stable (IVR B Plus)	-	-	
3.	Covid Loan	Long Term	0.29	IVR B+/Stable (IVR B Plus)			
4.	Cash Credit	Long Term	3.05	IVR B+/Stable (IVR B Plus)			
5.	Letter of Credit	Short Term	16.25	IVR A4 (IVR A Four)			

*Includes proposed limit of Rs. 2.25 crore

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:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs.	Rating Assigned/ Outlook

				Crore)	
Long Term Bank Facilities- WCTL	-	-	-	3.82	IVR B+/Stable (IVR B Plus)
Long Term Bank Facilities- GECL	-	-	-	1.56	IVR B+/Stable (IVR B Plus)
Long Term Bank Facilities- Covid Loan	-	-	-	0.29	IVR B+/Stable (IVR B Plus)
Long Term Bank Facilities- Cash Credit	-	-	-	3.05	IVR B+/Stable (IVR B Plus)
Short Term Bank Facilities- Letter of Credit	-	-	-	16.25*	IVR A4

*Includes proposed limit of Rs. 2.25 crore