

MVP Group International Inc

May 04, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Overdraft facility	641.60	641.60	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+(Stable)
Total	641.60	641.60	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 641.60-crore¹ fund-based bank facility of MVP Group International Inc (MVP or the company)² to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BB+ (pronounced ICRA double B plus). The outlook on the long-term rating is 'Stable'.

Rationale

The ratings upgrade take into account the improvement in profit margins of the company in FY2018 (as per the provisional financials shared by the company) and lower-than-expected dependency on external bank loans. The rating takes into consideration the established presence of MVP in the scented candles market in the US, with private label manufacturing as well as ownership of brands like Colonial and Carolina. The ratings also take into account MVP's strong network of experienced buyers comprising large retail corporate houses like Wal-Mart, Dollar General, P&G etc. as well as its widespread storage and distribution facilities. The Manipal Group had taken management control of MVP from April 2017 onwards and thereafter continues to undertake various cost-reduction measures that are expected to result in further expansion of the EBITDA margins of the company over the near-to-medium term.

The ratings, however, continues to remain constrained on account of the modest financial risk profile of the company, characterised by high leverage and high working capital intensity. The liquidity profile of the company also remains constrained by the moderate return indicators, significant working capital requirements and higher-than-expected capex incurred in FY2018. Furthermore, the rating takes into account the concentrated customer profile, wherein the top three customers contributed close to 60% of the annual sales in FY2017.

Outlook: Stable

ICRA believes MVP Group International Inc will continue to benefit from the established presence of the company in the scented candles market in the US. The outlook may be revised to 'Positive' if substantial improvement in profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, further weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Established presence in the US scented candles market - MVP is involved in the manufacture and distribution of scented candles in the US with an annual turnover of USD 170 million (approximately Rs. 1,105 crore), as reported in FY2018. Apart from ownership of its own brands like Colonial and Carolina, which generate around 15% of the annual turnover, MVP manufactures private label products for various retail corporate houses like Wal-Mart, Dollar General and P&G.

Buyers include strong retailers - MVP has a strong network of retail giants like Wal-Mart, Dollar General, P&G, etc. These customers have been purchasing from MVP for about eight years now, generating stable business for the company. MVP maintains a widespread storage and distribution network to cater to the requirements of these buyers.

Change in management; significant cost-reduction measures undertaken – The Manipal Group have taken over the management of the company, with effect from April 2017. The Group has undertaken several cost-reduction measures since, which are expected to result in expansion of EBITDA margins of the company over the near-to-medium term. The EBITDA margin has seen significant improvement in FY2018 as per the provisional financials shared by the company.

Credit challenges

Concentrated customer profile - The top-10 customers of MVP accounted for about 86% of its annual sales in FY2017, leading to high customer concentration. Any loss of business from the top customers may impact the revenue profile of the company. Nonetheless, these risks are partly mitigated by the long-standing relationship of MVP with its customers.

Modest financial risk profile - MVP's working capital intensity remains on the higher side owing to the high levels of finished goods inventory required to be maintained. Consequently, MVP's debt levels have been high, which combined with the moderate profitability and return indicators, have resulted in modest coverage metrics. MVP's Total Debt/OPBITDA stood at 7.2 times in FY2018. With consistently high utilisation of sanctioned credit limits, the company's liquidity profile also remains modest.

Necessity to successfully implement planned cost-saving measures - Given the high leverage in the books of the company, MVP's ability to implement further planned cost-reduction measures effectively and generate higher operating profits is critical for improving the leverage and debt-protection metrics.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

MVP, incorporated in 1998, is involved in the manufacture, import and distribution of scented candles in the US. The company primarily sells its products to large, national retailers like Wal-Mart, Dollar General, P&G, etc. The company sells scented candles under two broad categories – private label candles (approximately 85% of the annual sales) and branded candles (around 15% of the annual sales). MVP has two manufacturing facilities in the US, one at Elkin (North Carolina) and the other at Tennessee.

MVP is part of the Manipal Group, based in Manipal, Karnataka. The Group has controlling stake in MVP through Primacy Industries Ltd, India, and GP Global Ltd, Dubai.

Key financial indicators

	FY2017 (audited)	FY2018(provisional)
Operating Income (Rs. crore)	1260.4	1105.0
PAT (Rs. crore)	5.2	34.5
OPBDIT/OI (%)	5.0%	10.6%
RoCE (%)	5.0%	10.4%
Total Debt/TNW (times)	3.7	3.3
Total Debt/OPBDIT (times)	12.8	7.2
Interest Coverage (times)	1.5	2.0
NWC/ OI (%)	59.6%	67.6%

Note: Amounts have been stated in Rs crore by converting from USD at 1 USD = 65 INR

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				May 2018	October 2017	-	-
1	Overdraft facility	641.60	642.20	[ICRA]BBB- (stable)	[ICRA]BB+ (stable)	-	-

*As on April 19, 2018.

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft facility	NA	NA	NA	641.60	[ICRA]BBB-(stable)

Source: Company

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