

Indus Vegpro Private Limited

February 19, 2019

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long Term – Term Loan	0.50	2.82	[ICRA]BB(Stable); upgraded from [ICRA]BB-(Stable)
Short Term - Fund Based	5.00	6.50	[ICRA]A4+; upgraded from [ICRA]A4
Total	5.50	9.32	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade takes into account Indus Vegpro Private Limited's (IVPL) healthy growth in revenues in FY2018 supported by strong volume growth. It also factors in the completion of the capital expenditure and commencement of operations at the second manufacturing plant in January 2019, enhancing the manufacturing capacity and growth potential going forward. The ratings continue to factor in the extensive experience of the promoters in the food processing industry and the established network with suppliers and their key customers providing near-term revenue visibility. The ratings also factor in the favourable location of the manufacturing facility in the gherkin-producing region ensuring easy and timely procurement of raw materials, in addition to lower transportation cost. The company's financial profile remains healthy marked by strong operating margins, comfortable capital structure and coverage indicators. With prices for gherkins being fixed in advance for both procurement as well as sales, its margins remain insulated from any price volatilities.

The ratings, however, are constrained by high client concentration and geographical concentration risks. Notwithstanding the recent growth in revenues, the company's scale of operations continues to remain modest, constraining its operational and financial flexibility. Further, IVPL faces intense competition from the domestic and international players reducing the bargaining power and pricing flexibility in the export market. The ratings are also constrained by the company's exposure to agro-climatic and seasonality risk since the yield from cultivation may vary due to changes in climatic conditions. The ratings also consider the increase in working capital intensity in FY2018 owing to increased credit extended to its customers and IVPL's exposure to fluctuations in exchange rates as the company derives its entire revenues from exports. However, the company mitigates the forex risk partly through use of PCFC facility. ICRA also takes note of the regulatory and policy risks associated with export of food products.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from its established relationship with the existing clients, which will result in repeated orders providing healthy revenue visibility. The outlook may be revised to Positive if there is substantial increase in the scale of operations along with diversification in the customer base. The outlook may be revised to Negative if there is any weakening of the coverage indicators following any decline in operating margins or if any further increase in working capital intensity leads to weakening of the liquidity position.

Key rating drivers

Credit strengths

Healthy growth in revenues in FY2018; commencement of operations of new plant to support future revenue growth prospects – IVPL’s revenues grew by 40.8% to Rs. 24.7 crore in FY2018 from Rs. 17.6 crore in FY2017 backed by a 24.6% increase in sales volume and 13.0% increase in sales realisation. The company commenced production at the new plant in Chikkaballapur district in January 2019. The new unit has a capacity of 4,000MT of semi-processed gherkin and 250 MT of other semi-processed vegetables. This will bring the total capacity to almost 10,000MT, which will support its future revenue growth.

Vast experience of promoters in gherkins and food processing industry – The company is driven by a diversified and proficient board consisting of Mr. G. Girish, a specialist in contract farming; Mr. M. S. Mahadevaiah, an engineer with wide experience in food processing industry; Mr. Muniraju R, a finance expert in the agro-based industry, Mr. A. Ramesh, a horticulturist and a dynamic food technologist and Mr. Sanjeev Patel, an international business expert.

Location of the plant in the gherkin-producing region of India giving it easy access to raw material –The company’s manufacturing plant is located in Devangere, which is one of the major gherkin-growing belt in India. IVPL procures most of the raw materials like gherkins, cauliflower, mix vegetables, chillies, peppers, etc from local farmers directly, resulting in easy and timely procurement of raw materials in addition to lower transportation cost. It has set up their new manufacturing facility in Chikkaballapur, which is also part of a major gherkin-growing belt in India.

Healthy financial profile – The company’s operating margins remained healthy at 14.6% in FY2018 as against 14.2% in FY2017. The capital structure remained comfortable with a gearing of 1.1 times as on March 31, 2018. Aided by healthy operating margins, the coverage indicators also remained comfortable as indicated by interest coverage of 11.0 times and Total Debt/OPBDITA of 1.8 times in FY2018.

Established network of suppliers and customers; margins insulated from price volatilities – The company has an established network of 1200-1500 farmers from whom it sources its materials. The price of procurement for gherkins is determined at the time of contracting with the farmers. Similarly, IVPL fixes the price with its customers along with the delivery schedule, at an interval of every six months. With prices fixed at both the procurement and sales sides, its margins remain protected to a large extent. Moreover, its customers include reputed international players, mitigating the counterparty risk to a large extent.

Credit challenges

Modest scale of operations despite the growth in the last few years – Notwithstanding the growth in revenues in the recent years, with a turnover of Rs. 24.7 crore in FY2018, the company’s scale of operations remains small. This restricts its operational and financial flexibility to a large extent.

High client concentration and geographical concentration risk – The geographical concentration risk remains high as the revenues from sale to North America and Europe contributed to 85% of the revenues in FY2017 and 77% in FY2018. This exposes the company to geo-political and economic downturns associated with these regions. Similarly, with a single customer - Marcatus Qed Inc, Canada, contributing to about 60% of the revenues, the customer concentration risk also remains high. IVPL’s significant dependence on the customer reduces its pricing flexibility and bargaining power.

Intense competition due to fragmented nature of industry results in limited bargaining power – The gherkins industry is highly fragmented and there is strong competition from both organised as well as unorganised players in the domestic industry. This apart, the company faces competition from other gherkin-exporting nations like Germany and Turkey in the international market.

Exposure to agro-climatic risk – The yield from cultivation can vary depending on changes in the climatic conditions impacting the material availability. Being an agri-product, the availability is also subject to seasonality. The peak harvesting season is from June to December and the period from January to March has lean production. No production happens in April and May months.

Vulnerability to fluctuations in exchange rates, as the company is a 100% export-oriented unit (EOU) – The client base consists mainly of companies from North America, South America, Europe, Russian Federation and Asia. 80% of the company’s receivables are in US dollars and rest in Euro, exposing the revenues and margins to fluctuations in exchange rate. However, its receivables are hedged through the use of PCFC Bank facility.

Liquidity position

The company’s cash flows were impacted in FY2018 due to an increase in its working capital intensity. However, the same was funded through incremental working capital borrowings. With an average utilisation of 70% on the working capital limits, the liquidity position remains moderate. ICRA does not foresee any liquidity concerns as the cash accruals are expected to be adequate to meet the interest and repayment obligations as well as to meet the margins requirements for the likely increase in borrowings due to an increase in sales. The enhancement in the working capital limits to Rs. 8.5 crore from Rs. 6.5 crore is anticipated to further support the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

About the company

IVPL was incorporated in 2013 as a private limited company with its registered office in Davanagere, 250 km from Bangalore. The company was promoted by Mr. G. Girish and Mr. S. Mahadevaiah. IVPL is involved in growing, procuring, processing and exporting of gherkins for the food processing industry. Apart from gherkins, it also exports processed vegetables like cauliflower, selected hot pepper, onions, red bell pepper, garlic and carrots. IVPL is a 100% export-oriented unit and derives a major portion of its revenues from Europe and North America.

The company procures the vegetables through contract farming and has contracted with 1200-1500 farmers holding approximately 800 acres of land. It has seven branches, (at Ranbennur, Harapanahalli, Gutalla, Chornoor, Gowripanur, Chintamani and Hosdurga), which act as supply points for seeds and other raw materials for cultivating gherkins and for procurement and storage for the harvested gherkins. IVPL has a processing plant with 4500-MTPA capacity in Davanagere, Karnataka. In January 2019, it commenced the operations of its second plant with a 4000-MTPA processing capacity at Chikkaballapur, located at 20 km from Bangalore airport.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	17.6	24.7
PAT (Rs. crore)	1.4	2.3
OPBDITA/OI (%)	13.61%	14.28%
RoCE (%)	36.4%	34.3%
Total Debt/TNW (times)	0.8	1.1
Total Debt/OPBDITA (times)	1.2	1.9
Interest Coverage (times)	9.2	12.7

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)	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	
			Feb 2019		Dec 2017		Dec 2016	
1 Term Loan	Long Term	2.82	[ICRA]BB (Stable)		[ICRA]BB- (Stable)		[ICRA]B+	[ICRA]B+
2 Fund based	Short Term	6.50	[ICRA]A4		[ICRA]A4		[ICRA]A4	[ICRA]A4
3 Non-fund based	Short Term	0.00	-		-		[ICRA]A4	[ICRA]A4
4 Unallocated	Long Term / Short Term	0.00	-		-		[ICRA]B+/A4	[ICRA]B+/A4

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	Term Loan 1	June 2018	-	August 2025	2.82	[ICRA]BB (Stable)
NA	FDBP/FUBP	December 2017	-	-	3.50	[ICRA]A4+
NA	PFCF/EPC/FBR/EBD	December 2017	-	-	3.00	[ICRA]A4+
Total					9.32	

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