India Ratings Assigns Vintage Coffee's Bank Facilities 'IND BB+'/Positive

Nov 29, 2024 | Tea & Coffee

India Ratings and Research (Ind-Ra) has rated Vintage Coffee Private Limited's (VCPL) debt instruments as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	--	-	-	INR225	IND BB+/Positive/IND A4+	Assigned
Term loan	--	-	March 2030	INR350.30	IND BB+/Positive	Assigned
Non-fund-based working capital limit	--	-	-	INR45.80	IND A4+	Assigned
Proposed term loan	--	-	-	INR116	IND BB+/Positive	Assigned
Proposed fund-based working capital limit	--	-	-	INR62.90	IND BB+/Positive/IND A4+	Assigned

Analytical Approach

Ind-Ra has taken a fully consolidated view of VCPL and its parent, Vintage Coffee and Beverages Limited (VCBL), and sister company, Delecto Foods Private Limited (DFPL), referred to as the group, on account of the strong legal and strategic linkages among them.

Detailed Rationale of the Rating Action

The Positive Outlook reflects Ind-Ra's expectation of the sustenance of VCPL's credit metrics and scale of operations in the near to medium term FY25, led by the complete utilisation of the manufacturing capacity and the likely operationalisation of incremental instant coffee capacity.

The ratings reflect VCPL's small scale of operations, modest EBITDA margins and higher customer concentration. Ind-Ra expects the scale of operations to improve in the near to medium term, due to additional capacities becoming operational from FY26 and the maintenance of its credit metrics. However, the ratings are also supported by the company's comfortable credit metrics and experienced promoters.

List of Key Rating Drivers

Weaknesses

- Small scale of operations; likely to improve
- High customer concentration
- Restructuring and change in organisational structure
- Modest EBITDA margins, likely to sustain

Strengths

- Strong credit metrics; likely to sustain over medium term
- Geographical diversification

Detailed Description of Key Rating Drivers

Small Scale of Operations, likely to Grow: VCPL's consolidated revenue grew 108.3% yoy to INR1,310.39 million in FY24 (FY23: INR628.91 million; FY22: INR365.89 million), backed by an increase in the overall capacity utilisation of instant coffee to 47% (22%). The company's scale of operations remained small. VCPL added new customers in FY24 from different geographies. In 1HFY25, the revenue stood at INR1,152 million. Ind-Ra expects the revenue to improve in FY25 and FY26, on account of the complete utilisation of the manufacturing capacity and the likely operationalisation of incremental instant coffee capacity of 2000MT in FY26. Ind-Ra expects the scales of operations to be medium over the medium term.

High Customer Concentration: During FY24, VCPL's top five customers contributed 56.35% to its revenue. The customers are mostly based out of Singapore, MAURITANIE, Russia, the United Arab Emirates, and China.

Restructuring and Change in Organisational Structure: VCPL had defaulted on its packing credit facility in FY21 following its liquidity issues amid the COVID-19 outbreak. In order to support the liquidity, the promoters acquired a BSE-listed entity, Spaceage Products Limited and later renamed it as 'Vintage Coffee and Beverages Limited' and raised funds from the equity market worth INR1,530 million. The equity proceeds worth INR680 million were invested in VCPL. VCPL and DFPL are the 100% subsidiaries of VCBL. Subsequently, the account classification was moved to standard' from non-performing asset in September 2024 by the lender.

Modest EBITDA Margins; likely to Sustain: The consolidated EBITDA margins reduced but remained modest at 19.17% in FY24 (FY23: 24.46%), mainly due to its increased utilisation of the owned manufacturing capacities. Until FY23, the group had increased contribution in sales through job work. In 1HFY25, the margins stood at 17%. The return on capital employed was 8.5% in FY24 (FY23: 7.2%). Ind-Ra expects VCPL's consolidated EBITDA margins to remain at 15%-20% in the near- to medium term, backed by better realisation and a further increase in the capacity utiliisation.

VCPL enters individual supply contracts on the basis of spot prices of coffee beans (raw material). The company's margins are protected from raw material price volatility as it follows the practice of covering escalation in the input costs while entering agreements for the sale of instant coffee.

Strong Credit Metrics; likely to Sustain over Medium Term: In FY24, VCPL's consolidated gross interest coverage (operating EBITDA/gross Interest expense) improved to 3.57x (FY23: 2.51x) and the net leverage (adjusted net debt/operating EBITDA) reduced to 3.67x (6.55x), due to the reduction in the total debt position. In 1HFY25, the company's interest coverage stood at 6.6x and the net leverage at 2.2x. Its total debt reduced slightly to INR966 million in FY24 (FY23: INR1,022 million) and the absolute EBITDA increased to INR251.16 million (INR153.84 million). The company plans to incur a capex of INR150 million which is likely to be funded through the proceeds from a rights issue and internal accruals. Ind-Ra expects VCPL's consolidated credit metrics to remain comfortable in the near- to medium term, amid the absence of any debt-funded capex and no further drawdown of any term loans.

Geographical Diversification: CVPL is exporting instant coffee products in bulk and private labels to Europe, Southeast Asia, far East, Russia and commonwealth of independent countries, West Africa, the US, New Zealand, Australia among others. Also, the company is planning to enter direct consumer market through e-commerce platform.

Liquidity

Adequate: The average monthly maximum utilisation of VCPL's fund-based limits and non-fund-based limits was 95.05% and 75.72%, respectively, for the 12 months ended August 2024. The company does not have any plans to enhance its working capital requirements and the incremental working capital requirement, if any, will be funded through the internal accruals in the medium term. VCPL net cash conversion cycle declined but remained elongated at 362 days in FY24 (FY23: 664 days), mainly on account of a reduction in the inventory days to 318 (676). The free cash flow declined substantially to negative INR333.56 million in FY24 (FY23: INR 77.08 million), due to the negative working capital changes. The company has repayment obligations of INR45.56 million and INR45.56 million in FY25 and FY26, respectively, which are likely to be funded from its internal accruals. The consolidated cash and cash equivalents were INR45.92 million in FY24 (FY23: INR14.77 million). As of September 2024, the company had free cash (generated from the equity proceeds) in the form of advances given to non-banking finance companies worth INR300 million.

Rating Sensitivities

Negative: Deterioration in the scale of operations, or liquidity or the net leverage remaining above 3.50x, on a sustained and consolidated basis, will lead to the Outlook being revised to Stable.

Positive: The sustenance of the scale of operations, profitability, liquidity profile, along with the net leverage falling below 3.5x, all on a sustained and consolidated basis, will be positive for the ratings.

Any Other Information

Standalone Performance: VCPL's standalone revenue grew to INR960.94 million in FY24 (FY23: INR441.20 million) and EBITDA margins declined to 19.35% (28.12%). The interest coverage and the net leverage remained comfortable at 2.18x in FY24 (1.98x) and 6.73x (8.59x), respectively. In 1QFY25, the company achieved revenue of INR335.4 million with an EBITDA margin of 18.39% and an interest coverage of 2.90x.

About the Company

VCPL, which was established in 2017, is a 100% export-oriented unit and manufactures and exports instant coffee with an installed capacity of 4,500 MT. Its facility is located in Hyderabad.

Key Financial Indicators

Consolidated

Particulars	**FY24**	**FY23**
Revenue (INR million)	1,310.39	628.91
EBITDAR (INR million)	251.16	153.84
EBITDAR margin (%)	19.17	24.46
Gross interest coverage (x)	3.57	2.51
Net leverage (x)	3.67	6.55
Source: VCBL; Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/Outlook
Fund-based working capital limits	Long-term/Short-term	INR287.90	IND BB+/Positive/IND A4+
Non-fund-based working capital limit	Short Term	INR45.80	IND A4+
Term loan	Long Term	INR 466.30	IND BB+/Positive

Bank wise Facilities Details

The details are as reported by the issuer as on (29 Nov 2024)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Punjab National Bank	Fund Based Working Capital Limit	225	IND BB+/Positive/IND A4+
2	Punjab National Bank	Term loan	350.3	IND BB+/Positive
3	Punjab National Bank	Non-Fund Based Working Capital Limit	45.8	IND A4+
4	NA	Proposed Term loan	116	IND BB+/Positive
5	NA	Proposed Fund Based Working Capital Limit	62.9	IND BB+/Positive/IND A4+

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Term loan	Low
Non-fund-based working capital limit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA AND POLICIES

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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