

Plant Lipids Private Limited: Assigned

Name of the Instruments	Amount (Rs Crore)	Ratings/Outlook
Bill Purchase/Bill Discounting	196.00	SMERA A1+ (Assigned)
Packing Credit/Packing Credit in Foreign Currency	195.00	SMERA A1+ (Assigned)
Term Loan	2.14	SMERA AA-/Stable (Assigned)
Bank Guarantee/Letter of Guarantee	0.25	SMERA A1+ (Assigned)
Letter of Credit	5.50	SMERA A1+ (Assigned)

SMERA has assigned ratings of '**SMERA AA-**'(read as SMERA double A minus) and '**SMERA A1+**'(read as SMERA A one plus) on the above mentioned bank facilities of Plant Lipids Private Limited (PLPL). The outlook is '**Stable**'. The ratings derive comfort from the long track of operations, experienced management and above average financial risk profile. The ratings are further supported by PLPL's diversified client base and consistent growth in revenues. However, the ratings are constrained by the declining margins and working capital intensive nature of operations. The ratings also factor in the susceptibility of the company to changes in government regulations and exposure to forex fluctuations.

PLPL is engaged in the manufacture of spice oleoresins since 1979 and is one of the largest exporters from India. The company benefits from the extensive experience of its management. PLPL has a healthy financial risk profile marked by gearing of 0.46 times and interest coverage ratio of 19.99 times for FY2014-15. The company has healthy cash accruals of around 48.08 crore as on 31 March, 2015 against a nominal debt repayment obligation of Rs.0.91 crore.

PLPL has a diversified customer and geographic base. The top 10 customers constitute ~30 per cent of the total sales. Besides, the sales are diversified across geographies including Asia, North America and Europe. Revenue increased at a moderate pace from Rs.588.48 crore in FY2013-14 to Rs.602.94 crore in FY2014-15. In FY2015-16, PLPL registered a healthy revenue growth of ~Rs.846 crore (Provisional). However, in FY2012-13, the company transferred its pepper oleoresin business to its wholly owned subsidiary, Plant Lipids Lanka Private Limited that resulted in a marginal decline in revenues in FY2013-14. The operating margins also fell from 16.39 per cent in FY2012-13 to 10.08 per cent in FY2014-15 due to increased contribution of ground spices to total revenue over spice oleoresin. The contribution of oleoresins to total revenue declined from ~68 per cent in FY2012-13 to 60 per cent in FY2014-15.

PLPL's operations are working capital intensive. The working capital cycle ranges from 200 - 230 days due to high inventory holding on account of seasonal procurement of raw materials. The bank limit utilisation has been around 96 per cent for six months ended April 2016. PLPL's profit margins are susceptible to volatility in raw material prices. Further, with around 78 per cent of the revenues being generated through export sales, the company is exposed to foreign exchange fluctuations. PLPL is also susceptible to changes in government regulations under the Biological Diversity Act, 2012. Introduction of new tax structures under the act may impact the profitability of the company.

Rating Sensitivity Factors

- Maintaining stable profit margins
- Efficient working capital management

Outlook-Stable

SMERA believes that PLPL will continue to benefit over the medium term from its established presence in the spice oleoresin industry. The outlook may be revised to 'Positive' if the company achieves higher than expected profit margins. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition in its area of operation or registers lower than expected profit margins. Further, deterioration in the financial risk profile owing to higher-than-expected increase in debt-funded working capital requirements may also entail a 'Negative' outlook.

Criteria applied to arrive at the rating:

- Manufacturing entities

About the Company

PLPL was incorporated in 1979 to manufacture spice oleoresins, spice oils and ground spices. The company, headquartered in Cochin, is headed by Mr. C J George. PLPL is a government recognised export house.

For FY2014-15, PLPL reported net profit of Rs.39.24 crore on operating income of Rs.602.94 crore, as compared with profit after tax (PAT) of Rs.46.91 crore on operating income of Rs.588.48 crore in FY2013-14.

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ABOUT SMERA

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