

Press Release

Plant Lipids Private Limited

January 24, 2020

Rating reaffirmed



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 545.75 Cr. |
| Short Term Rating | ACUITE A1+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) to the Rs. 545.75 crores bank facilities of PLANT LIPIDS PRIVATE LIMITED (PLPL).

The rating reaffirmation reflects sustenance of its business risk profile despite competitive business environment in the overseas markets, and healthy financial risk profile supported by healthy gearing, liquid investments of ~ Rs. 70.00 crore and healthy cash accruals with no repayment obligations. The ratings take into cognizance improvement in the profitability owing to better realizations and stable raw material costs. The ratings also factor in the intensive working capital operations and higher working capital requirements. However, owing to better inventory management and faster collection of receivables, the company was able to manage its working capital operations well as reflected by reduction in bank limits and low utilization of working capital facilities.

Plant Lipids Private Limited (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. It has manufacturing facilities spread across Kerala, Karnataka, Telangana and Sri Lanka with a combined capacity of 6,855 MTPA for spice oils and 46,800 MTPA for spice oleoresins.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of the PLPL along with two wholly owned subsidiaries, three step down subsidiaries and three associates due to operational and financial linkages to arrive at this rating. All the entities are here in referred to as the PLPL group.

| Name of the company | Relationship |
|---|--|
| Plant Lipids Lanka (Pvt.) Ltd., Sri Lanka | Subsidiary |
| Plant Lipids UK Limited | Subsidiary |
| Plant Lipids Latinoamerica, S.A. de C.V. | Subsidiary of Plant Lipids UK Limited |
| Plant Lipids Europe GMBH | Subsidiary of Plant Lipids UK Limited |
| PT. Plant Lipids Indonesia | Subsidiary of Plant Lipids UK Limited |
| Koenen Extrakte GmbH | Associates of Plant Lipids Europe GmbH |
| Plant Lipids (Thailand) Co. Ltd. | Associates |
| Blue Ridge Realtors Private Limited | Associates |
| FF Bioworks Private Limited | Associates |

Key Rating Drivers

Strengths

• Experienced management

PLPL is promoted by C.J George and Mr. John George Nechupadom with around four decades of experience in the spice oleoresins industry. The company was incorporated in 1979 and was gradually expanded to the present total capacity of 6855 metric tons per annum (MTPA) for spice oils and 38,585 MTPA for spice oleoresins at its plants situated across South India and Sri Lanka. PLPL has a competent management supported by a team of well qualified and experienced second line

personnel. The promoter's experience in spice oleoresins industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. PLPL has two wholly owned subsidiaries: Plant Lipids Lanka (Pvt) Ltd, Sri Lanka (PLPL Sri Lanka) and Plant Lipids UK Limited, UK (PLPL UK). PLPL Sri Lanka is engaged in processing of pepper oleoresins and oils. PLPL UK is marketing arm. Further, PLPL UK has three step down subsidiaries: Plant Lipids Latinoamerica S.A de C.V, Mexico, Plant Lipids Europe GMBH, Germany, and PT. Plant Lipids Indonesia, Indonesia. PLPL has few associate entities, namely, Plant Lipids (Thailand) Co., Ltd., Thailand, Blue Ridge Realtors Pvt. Ltd., India and FF Bioworks (India) Pvt. Ltd., India. All the step down subsidiaries are marketing arms of PLPL UK. Out of the major revenues of the group, about 90 percent are from flagship entity PLPL and rest is from PLPL Sri Lanka and others. PLPL supports its group entities either by giving interest bearing advances, or extending corporate guarantee for their loan facilities for the business operations.

• **Healthy financial risk profile**

PLPL has a healthy financial risk profile marked by high net worth, comfortable gearing and strong coverage indicators. The net worth of PLPL stood healthy at Rs. 674.03 crore as on March 31, 2019 against Rs. 619.97 crore as on March 31, 2018. The increase in the networth is on account of healthy accretion to reserves due to healthy profitability. The gearing of the company further improved to 0.20 times as on March 31, 2019 against 0.60 times as on March 31, 2018. Gearing is expected to remain low on account of low utilization of working capital limits. The total debt of Rs. 136.82 crore as on March 31, 2019 comprises short-term working capital debt from the bank. Interest Coverage Ratio (ICR) improved to 10.85 times for FY2019 against 7.19 times for FY2018. Similarly, Debt Service Coverage Ratio (DSCR) improved to 8.64 times for FY2019 against 5.58 times for FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.31 times as on March 31, 2019 against 0.67 times as on March 31, 2018. Further, the net cash accruals of the company stood healthy at Rs. 85.01 crore for FY2019 against no debt repayment obligation.

Acuite believes that the financial risk profile of the company will continue to remain healthy in the near to medium term backed by healthy revenue levels, improvement in profitability and healthy net cash accruals.

Weaknesses

• **Working capital intensive nature of operations**

PLPL has intense working capital operations as evident from Gross Current Assets (GCA) of 237 days as on March 31, 2019 as against 267 days as on March 31, 2018. The intense GCA days were mainly due to high inventory days and moderate debtor levels. The inventory days are high at 130 in FY2019, since the company maintains inventory levels of 4 months due to seasonal nature of the raw material procurement. The debtors stood at 78 days as on March 31, 2019 and provides credit period of 90 days to its customers. Although, the working capital operations are intensive, the company has been able to manage its inventory well which has led to lower utilization of working capital limits over the past six months ended November 2019 to the extent of 26 percent. Acuite believes that the working capital operations of the company will remain intense due stocking high inventory levels in the business.

• **Susceptibility of margins to agro climatic risks, forex risk and high competition**

The operating margins of PLPL group remain vulnerable to agro climatic risks, forex risk and competition. The company's raw material include spices, the prices of which are dependent on agro climatic factors. The company exports around 70 -75 per cent of the total sales and imports around 30 per cent of the total purchases, thus providing natural hedge to a certain extent. The company faces competition from global players. Profitability has seen an uneven trend. EBITDA margins stood at 10.42 per cent in FY2019 against 8.47 per cent in FY2018 and 11.00 per cent in FY2017. Similarly, net profit margins stood at 5.48 per cent in FY2019 against 3.39 per cent in FY2018 and 7.44 per cent in FY2017. Acuite believes that profitability is likely to improve in the near term on the back of improved realizations.

Rating Sensitivities

- Significant improvement in the scale of operations and improvement in profitability leading to improvement in the overall financial risk profile.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

None

Liquidity Position: Strong

The group has strong liquidity marked by healthy net cash accruals of Rs. 85.01 crore against no maturing debt obligations in FY2019. The operations are working capital intensive as marked by gross current asset (GCA) days of 237 in FY2019 as compared to 267 days in FY2018. However, the cash credit limit of the company remains utilized at ~26 per cent during the last six months period ended November 2019. The unencumbered cash and bank balances stood at Rs. 50.14 crore as on March 31, 2019. The current ratio stood at 3.37 times as on March 31, 2019. Acuite believes that the liquidity of the company will remain strong on account of healthy net cash accruals, no maturing debt obligations, liquid investments and unutilized limits in working capital facilities.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|---------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 1060.70 | 1097.79 |
| PAT | Rs. Cr. | 58.18 | 37.22 |
| PAT Margin | % | 5.48 | 3.39 |
| Total Debt / Tangible Net Worth | Times | 0.20 | 0.60 |
| PBDIT / Interest | Times | 10.85 | 7.19 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing entities - <http://acuite.in/view-rating-criteria-4.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument/ Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|-------------|-----------------------------------|------------|-----------------------|----------------------------|
| 15-Nov-2018 | PC/PCFC | Short Term | 100.14 | ACUITE A1+ (Reaffirmed) |
| | PC/PCFC | Short Term | 19.86 | ACUITE A1+ (Reaffirmed) |
| | PC/PCFC | Short Term | 200.00 | ACUITE A1+ (Reaffirmed) |
| | Pre / Post Shipment Credit | Short Term | 200.00 | ACUITE A1+ (Reaffirmed) |
| | PC/PCFC | Short Term | 20.00 | ACUITE A1+ (Reaffirmed) |
| | Letter of Credit | Short Term | 5.00 | ACUITE A1+ (Reaffirmed) |
| | Letter of Credit | Short Term | 0.50 | ACUITE A1+ (Reaffirmed) |
| | Bank Guarantee | Short Term | 0.25 | ACUITE A1+ (Reaffirmed) |
| 11-Aug-2017 | PC/PCFC | Short Term | 300.00 | ACUITE A1+ (Reaffirmed) |

| | | | | |
|-------------|-------------------------------------|------------|--------|----------------------------------|
| | Term Loan | Long Term | 2.14 | ACUITE AA - / Stable (Withdrawn) |
| | Bill Discounting / Purchase | Short Term | 220.00 | ACUITE A1+ (Reaffirmed) |
| | Letter of Credit | Short Term | 5.50 | ACUITE A1+ (Reaffirmed) |
| | Bank Guarantee/ Letter of Guarantee | Short Term | 0.25 | ACUITE A1+ (Reaffirmed) |
| | Proposed Short Term Facility | Short Term | 0.14 | ACUITE A1+ (Assigned) |
| 20-Jun-2016 | PC / PCFC | Short Term | 195.00 | ACUITE A1+ (Assigned) |
| | Term Loan | Long Term | 2.14 | ACUITE AA - / Stable (Assigned) |
| | Bill Discounting / Purchase | Short Term | 196.00 | ACUITE A1+ (Assigned) |
| | Letter of Credit | Short Term | 5.50 | ACUITE A1+ (Assigned) |
| | Bank Guarantee/ Letter of Guarantee | Short Term | 0.25 | ACUITE A1+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------------|------------------|----------------|----------------|-----------------------------|-------------------------|
| PC / PCFC | Not Applicable | Not Applicable | Not Applicable | 70.00 | ACUITE A1+ (Reaffirmed) |
| PC / PCFC | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A1+ (Reaffirmed) |
| PC / PCFC | Not Applicable | Not Applicable | Not Applicable | 160.00 | ACUITE A1+ (Reaffirmed) |
| Pre/Post Shipment Credit | Not Applicable | Not Applicable | Not Applicable | 140.00 | ACUITE A1+ (Reaffirmed) |
| PC/PCFC | Not Applicable | Not Applicable | Not Applicable | 52.00 | ACUITE A1+ (Reaffirmed) |
| Proposed Short Term Facility | Not Applicable | Not Applicable | Not Applicable | 98.75 | ACUITE A1+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A1+ (Reaffirmed) |

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About Acuité Ratings & Research:

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