

Press Release

Herbal Isolates Private Limited

24 February, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs 8.50 Cr
Short Term Rating	SMERA A3+

*Refer Annexure for details

Rating Rationale

SMERA has assigned short term rating of '**SMERA A3+** (read as SMERA A three plus)' on the Rs. 8.50 crore bank facility of Herbal Isolates Private Limited.

Herbal Isolates Private Limited (HIPL), incorporated in 1984, is a Cochin-based company engaged in the processing and trading of pepper and other spices. The company is promoted by Mr. Varghese Jacob, Mr. Ninan Philip Modayil, Mr. George Paul and Mr. Mani Varghese.

Key Rating Drivers

Strengths

Established track record of operations and experienced promoters

The company is engaged in the processing and trading of pepper and other spices since 1984 and has established long term relations with customers and suppliers. Further, the promoters, Mr. Varghese Jacob, Mr. Ninan Philip Modayil, Mr. George Paul and Mr. Mani Varghese experience of around four decades in the processing and trading of spices.

• Improvement in revenue

HIPL reported increase in operating income to Rs.57.96 crore in FY2015-16 from Rs.53.17 crore in FY2014-15 on account of increase in job work and trading income. Further, as informed by the management, HIPL reported operating income of Rs.33.00 crore (provisional) for FY2017(7M).

• Healthy profitability

HIPL registered higher EBITDA margins at 17.20 percent in FY2015-16 from 14.92 per cent in the previous year owing to the company's product - Dehydrated Green Pepper commanding higher margin in the export market. The PAT margin has also been healthy at 9.98 percent in FY2015-16 as against 7.14 percent in the previous year.

• Strong financial risk profile

HIPL has strong financial risk profile marked by low gearing at 0.18 times as on 31 March, 2016 as compared to 0.16 times in the previous year. The total debt of Rs.5.98 crore mainly includes working capital borrowings. Further, interest coverage stood at 30.98 times in FY2015-16 as compared to 24.05 times in the previous year.

• Healthy liquidity position

HIPL has healthy liquidity position reflected in the net cash accruals of Rs.4.20 crore as on 31 March, 2016. The company does not have long term debt and has no such plans in the near future. The NCA to TD (Net cash accruals to Total Debt) stood at 1.07 times in FY2015-16 as compared to 1.14 times in FY2014-15. Further, the average cash credit limit utilisation stood at 11.00 percent during the last six months ended 31st October, 2016.

Weaknesses

- **Working capital intensive operations**

The operations of the company are working capital intensive evident from the working capital cycle (WCC) days of 166 and Gross current asset days of 172 in FY2015-16. The WCC days are high due to lower credit period of six days availed from suppliers against debtors days of 73 and inventory days of 99 in FY2016.

- **Fragmented and competitive industry**

The company operates in a highly competitive and fragmented food processing industry with several organised and unorganised players.

- **Volatility in the prices of raw materials and exposure to the vagaries of nature**

The food processing industry is vulnerable to fluctuations in the prices of raw materials. Further, the company is also vulnerable to changes in climatic conditions.

- **Foreign exchange fluctuation risk**

The margins of the company are vulnerable to fluctuations in foreign exchange rates as 70 percent revenue is derived from exports. However, as part of the hedging mechanism, the company has covered 80 percent of its exposure under the forward cover.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of HIPL

About the Rated Entity - Key Financials

HIPL, incorporated in 1984 is a Cochin-based company engaged in the processing and trading of pepper and other spices. The company has installed capacity of 1000 metric tonnes per annum (MTPA) for manufacturing fenugreek mix powder, 300 MTPA for dehydrated green pepper, 400 MTPA for green pepper in Brine, 600 MTPA for HVP Powder Products and 3000 MTPA for spent mustard waste/residue. The company exports to countries including United Kingdom, France, Germany, USA and Japan. For FY2015-16, HIPL registered profit after tax (PAT) of Rs. 6.01 cr on revenue of Rs.60.17 cr, as compared with PAT of Rs.3.91 cr on revenue of Rs.54.78 cr in FY2014-15. The networth stood at Rs.34.25 cr as on 31 March, 2016 as compared to Rs.29.00 cr in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

*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	8.50	SMERA A3+

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