Press Release

14 March, 2018

HERBAL ISOLATES PRIVATE LIMITED

Rating Upgraded

Total Bank Facilities Rated *	Rs. 9.50 cr. (enhanced from Rs. 8.50 cr.)
Short Term Rating	SMERA A2 (Upgraded from SMERA A3+)

 # Refer Annexure for details

Rating Rationale

SMERA has upgraded short-term rating on the Rs. 8.50 crore bank facility of Herbal Isolates Private Limited (HIPL) to **'SMERA A2' (read as SMERA A two)** from **'SMERA A3+' (read as SMERA A three plus)**. Further, SMERA has assigned **'SMERA A2' (read as SMERA A two)** on the Rs. 1.00 crore bank facility of HIPL.

The upgrade is driven by the continued improvement in business risk profile of the company and same is expected to be sustained over the near to medium term. The revenue grew from Rs. 60.17 crore in FY2016 to Rs. 74.16 crore in FY2017. The company has reported Rs. 51.50 crore (provisional) during April, 2017 to December, 2017.The revenue growth is supported by increase in the average realization of pepper alongwith improvement in customer orders and continuous capacity addition. The upgrade is also driven by improvement in operating profitability from 17.24 percent in FY2016 to 20.77 percent in FY 2017 while maintaining comfortable liquidity position.

The ratings continue to draw comfort from the experienced management, established track record of operations in the trading and processing of spices, improvement in revenue and margins. The rating also factors the comfortable financial risk and liquidity profile maintained by the company. However, the aforementioned strengths are partially offset by the working capital intensive nature of operations and exposure to intense competition alongwith susceptibility of the margins to volatility in raw material prices and foreign exchange rate.

HIPL, incorporated in 1984 is a Cochin-based company engaged in processing and trading of Spices and pepper. The company is promoted by Mr. Varghese Jacob, Mr. Ninan Philip Modayil, Mr. George Paul and Mr. Mani Varghese. The processing facility of the company is located in Cochin and it procures raw material from domestic suppliers. The company derived around 89 percent of its revenue from manufacturing activity; around 6 percent from job work and remaining 5 percent from trading during FY 2017.

HIPL exports around 64 percent of its total sales to countries including Sweden, United Kingdom, France, Germany, USA and Japan and remaining 36 percent is supplied to domestic customers. The company is part of the Synthite group established in 1972 which has interest in diversified industries including spices, hospitality, realty and power business.

Key Rating Drivers

Strengths

Established track record of operation and Experienced management

The company is engaged in processing and trading of spices and peppers since 1984 and the established relation with its customers and suppliers. Further, the promoters of the company Mr. Varghese Jacob, Mr. Ninan Philip Modayil, Mr. George Paul and Mr. Mani Varghese have extensive experience of around four decades in the spice processing and trading business. HIPL, also benefits from its group company Synthite Industries Limited, which has presence in the global Oleoresin market. The established presence has helped the company to report moderate compounded annual growth rate (CAGR) of around 14 percent during the last four years. Going forward, SMERA expects the business risk of the company to strengthen on back of its established presence and experienced management.

Improved Profitability

HIPL's EBITDA margin stood at 20.7 percent in FY2017 as against 17.24 percent in FY2016 and 14.92% in FY14. Further, the PAT margin is also healthy at 12.6 percent in FY17 as against 9.99 percent in FY16. The company's product i.e. Dehydrated Green Pepper commands higher margin in the overseas market Around 64 percent of the company's revenue is derived from the overseas market leading to higher profitability.

Low gearing and healthy liquidity profile

The company's gearing (debt to equity) ratio stood at 0.19 times as on March 31, 2017 as against 0.18 times in the previous year. Interest coverage stood at 45.92 times for FY 2017 as compared to interest coverage of 30.99 times in the previous year. HIPL's net worth stood at Rs. 43.45 crore as on March 31, 2017 as against Rs. 34.10 crore in the previous year. The liquidity position of the company is comfortable as reflected by the current ratio of 4.06 times as on 31st March, 2017 as against 3.77 times in the previous year. Going forward, SMERA expects the company to maintain its financial risk profile in the absence of any majorly debt funded capital expenditure plan and moderate working capital requirement.

Weaknesses

Moderately intensive nature of operations

The operations of HIPL are moderately working capital intensive nature of business which is evident from working capital cycle of 145 days in FY2016-17 as against 166 days in the previous year. The working capital cycle days are high due to lower credit period availed from suppliers of 6 days against debtor's days of 74 and inventory days of 77 in FY2017. The stretched inventory and debtor days are due to the major yearend procurement and sales. However, the company maintains healthy liquidity position through the year and is stretched during the peak period.

Fragmented and competitive nature of industry

HIPL operates in highly competitive and fragmented commodity processing industry characterized by a large number of players including unorganized players.

Susceptibility to volatility in raw material price & foreign exchange rate

The operation of the company remains vulnerable to vagaries of nature as it is dealing in agro-commodities. Any change in the price and supply of raw material is likely to impact the operations of the company. The margins of the company are also vulnerable to fluctuations in foreign exchange rates as 70 percent of the revenue is derived from exports. However, the risk is mitigated to large extent as part of the hedging mechanism through which the company covers 80 percent of its exposure under the forward cover.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of HIPL to arrive at the rating.

About the Rated Entity - Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	74.16	60.17	54.78
EBITDA	Rs. Cr.	15.40	10.37	8.18
PAT	Rs. Cr.	9.34	6.01	3.91
EBITDA Margin	(%)	20.77	17.24	14.92
PAT Margin	(%)	12.60	9.99	7.14
ROCE	(%)	32.16	25.50	18.23
Total Debt/Tangible Net Worth	Times	0.19	0.18	0.16
PBDIT/Interest	Times	45.92	30.99	24.05
Total Debt/PBDIT	Times	0.54	0.58	0.58
Gross Current Assets (Days)	Days	137	150	119

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

None

Any other information

None

Applicable Criteria

- Manufacturing Sector - https://www.smera.in/criteria-manufacturing.htm
- Default Recognition - https://www.smera.in/criteria-default.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument

https://www.smera.in/criteria-complexity-levels.htm

Rating History

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
24th February, 2017	Packing Credit	Short Term	8.50	SMERA A3+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	9.50 (enhanced from Rs. 8.50 crore)	SMERA A2 (Upgraded from SMERA A3+)

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ABOUT SMERA

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