Press Release

Herbal Isolates Private Limited

April 24, 2019

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.9.75 crore (Enhanced from Rs.9.50 crore)
Short Term Rating	ACUITE A2 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the short term rating of '**ACUITE A2' (read as ACUITE A two)** to the Rs.9.50 crore and assigned the short term rating of ''**ACUITE A2' (read as ACUITE A two)** to the Rs.0.25 crore bank facilities of Herbal Isolates Private Limited (HIPL).

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 procures raw material from domestic suppliers. 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 which has interest in diversified industries including spices, hospitality, realty and power business.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Herbal Isolates Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations and experienced promoters:

The company is engaged in processing and trading of spices and peppers since 1984, leading to established relations with its customers and suppliers. Further, the promoters of the company have extensive experience of around four decades in the spice processing and trading business.

Healthy profitability:

HIPL's EBITDA margin stood at 20.16 percent in FY2019 (Provisional) as against 20.19 percent in FY2018 and 20.77 percent in FY2017. The margins are high as the company's product Dehydrated Green Pepper commands higher margin in export market. The PAT margin is also healthy at 13.26 percent in FY2019 (Provisional) as against 11.77 percent in FY2018 and 12.60 percent in FY2017.

Strong financial risk profile:

HIPL has comfortable financial risk profile marked by low gearing and comfortable coverage indicators. The company's gearing (debt to equity) ratio stood at 0.06 times as on March 31, 2019 (Provisional). Interest coverage ratio stood at 39.99 times for FY 2018 as compared to 45.92 times in the previous year. Total debt of Rs.3.80 crore as on March 31, 2019 (Provisional) only includes working capital borrowings. HIPL has comfortable net worth of Rs. 59.67 crore as on March 31, 2019 (Provisional) as against Rs. 50.78 crore in the previous year.

Healthy liquidity position:

HIPL has healthy liquidity position reflected in adjusted net cash accruals of Rs.10.36 crore as on March 31, 2019 (Provisional). The company does not have any long term debt nor does it plan to have the same. NCA to TD stood at 2.73 times in FY2019 (Provisional) as compared to 1.50 times in FY2018. Unencumbered cash and cash equivalents stood at Rs. 0.83 crore as on March 31, 2018.

Weaknesses

Fluctuating revenue:

HIPL has reported operating income of Rs.67.04 crore for FY2019 (Provisional) as compared to Rs.73.52 crore for FY2018 and Rs.74.16 crore for FY2017. The decline in operating income is on account of increasing competition from international market of Vietnam, Brazil, amongst others resulting in competitive pricing and reduced bargaining power.

Working capital intensive nature of operations:
HIPL operates in working capital intensive nature of business which is evident from WCC days of 142 and GCA days of 199 in FY2019 (Provisional). The WCC days are high due to lower credit period availed from suppliers against debtor days of 64 and inventory days of 95 in FY2019 (Provisional). However, the company maintains healthy liquidity position through the year, but is stretched during the peak period.

Fragmented and competitive nature of industry:

HIPL operates in highly competitive and fragmented food processing industry characterised by numerous large players as well as numerous unorganised players.

Volatility in raw material price and exposed to vagaries of nature:

The food processing industry as a whole remains vulnerable to fluctuations in the prices of raw materials. Any significant changes in such factors will have direct impact on the business operations of the company. Further, the company's operations are vulnerable to climatic conditions prevailing in the vicinity.

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

Liquidity Position :

HIPL has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated net cash accruals of Rs.7.31-10.23 crore during the last three years through FY2017-18, while its maturing debt obligations were Nil over the same period. The cash accruals of the company are estimated to remain around Rs.10.36-11.50 crore during 2019-21, while its repayment obligations are estimated to be Nil. The company's operations are moderately working capital intensive as marked by gross current assets (GCA) of 156 days in FY 2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the company remains utilised below 5 percent during the last nine months ended March, 2019. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual with moderate repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	73.52	74.16	60.17
EBITDA	Rs. Cr.	14.84	15.40	10.37
PAT	Rs. Cr.	8.65	9.34	6.01
EBITDA Margin	(%)	20.19	20.77	17.24
PAT Margin	(%)	11.77	12.60	9.99
ROCE	(%)	25.37	32.16	46.91
Total Debt/Tangible Net Worth	Times	0.13	0.19	0.18
PBDIT/Interest	Times	39.99	45.92	30.99
Total Debt/PBDIT	Times	0.44	0.52	0.56
Gross Current Assets (Days)	Days	156	137	150

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

None

Any other information
Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
14-Mar-2018	Packing Credit	Long Term	9.50 (Enhanced from Rs.8.50 cr)	ACUITE A2 (Upgraded from ACUITE A3+)
24-Feb-2017	Packing Credit	Long Term	8.50	ACUITE A3+ (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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A2 (Assigned)

Contacts

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About Acuité Ratings & Research:
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