

Press Release

Herbal Isolates Private Limited

July 02, 2020

Rating Reaffirmed



| | |
|-------------------------------------|---------------------------|
| Total Bank Facilities Rated* | Rs. 9.75 Cr. |
| 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 Rs. 9.75 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 and Mr. Mani Varghese. The processing facility of the company is located in Cochin and procures raw material from domestic suppliers. HIPL exports around 60 percent of its total sales to countries including Sweden, United Kingdom, France, Germany, USA and Japan and remaining 40 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 group is promoted by Mr. Varghese Jacob, Mr. Ninan Philip Modayil and Mr. Mani Varghese. The promoters have extensive experience of around four decades in the same line of business. HIPL is engaged in the business of in processing and trading of spices and peppers since 1984. The company is part of the Synthite group which has interest in diversified industries including spices, hospitality, realty and power business. The promoters' extensive experience is also reflected through sustenance of its business risk profile despite competitive business environment in the overseas markets and healthy financial risk profile. Further, the management of the group, over the years, has built a healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. Acuité believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

• Healthy financial risk profile

The financial risk profile is marked by healthy net worth, low gearing and healthy debt protection measures. The company has a healthy networth of Rs.65.85 crore as on March, 2020 (Provisional) as against Rs.58.19 crore as on 31 March, 2019 and Rs.50.78 crore as on 31 March, 2018. The gearing stood nil as on 31 March, 2020 (Provisional) compared to 0.07 times as on 31 March, 2019 and 0.13 times as on 31st March, 2018. The total debt as on 31st March, 2020 (Provisional) remain nil as against Rs.3.82 crore as on 31 March, 2019. The company generated net cash accruals of Rs.9.76 crore for FY2020 (Provisional) as against no debt obligation. The healthy margins and prudently geared capital structure have contributed to the robust cash accruals. The interest coverage ratio stood healthy at 83.67 times in FY2020 (Provisional) as against 42.88 times in FY2019. The operations of the company are working capital intensive. The Gross Current Asset stood high in the range of 156-170 days in the last three years owing to high inventory holding and debtors in the range of 60-100 days. The company has to maintain high inventory on account of seasonal availability of its raw materials like Green pepper, turmeric, among others.

The dependence of company on agro commodities to fulfil its raw material requirements and diversification to other products will continue to keep operations working capital intensive. The healthy internal accruals are likely to result in lower dependence on external borrowings for meeting its working capital requirements. The average working capital utilisation stood low for the last twelve months ended May, 2020. Acuite believes that the financial risk profile of the group will continue to remain healthy over the medium term on account of its healthy scale of operations, and no major debt funded capex plans in near term.

Weaknesses

• Working capital intensive operations

HIPL has intense working capital operations marked by Gross Current Assets (GCA) of 170 days in FY2020 (provisional) as against 148 days in FY2019. The intense GCA days were mainly due to high inventory days and moderate debtor levels. The inventory days are high at 96 in FY2020, since the company maintains inventory levels of 3-4 months due to seasonal nature of the raw material procurement. The debtors stood at 67 days as on March 31, 2020 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 twelve months ended June 2020. Acuite believes that the working capital operations of the company will remain intense due stocking high inventory levels in the business.

• Susceptibility to fluctuations in raw material price and forex rates

Operations are exposed to inherent risks associated with the agriculture-based commodity business, such as availability of raw materials, fluctuations in prices, and changes in government regulations. The company is engaged in the business of processing and trading of spices and peppers since 1984. The prices of pepper are volatile in nature; hence, the profitability is highly susceptible to the ability of the company to pass on the same to its customers. The operating margin have moderated in past three years marked by 17.56 percent for FY2020 (Provisional) as against 20.19 percent for FY2018. The decline in margins is on account of increasing competition from international market of Vietnam, Brazil amongst others resulting in competitive pricing and reduced bargaining power.

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.

Rating Sensitivity

- Sustenance of revenue growth with improvement of operating and PAT margins.
- Maintaining healthy financial risk profile

Material Covenants

None

Liquidity Position: Strong

The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.9.76-10.23 crore during the last three years through 2018-20, while its maturing debt obligations were nil over the same period. The cash accruals of the company are estimated to remain around Rs.9.50-10.50 crore during 2021-23 against nil debt obligation. The company's operations are moderately working cycle intensive as marked by Gross Current Assets (GCA) of 170 days in FY 2020 (provisional). However, the cash credit limit of the company remains utilised below 5 percent during the last 12-month period ended June 2020. The current ratio of the company stood healthy at 18.73 times as on March 31, 2020 (provisional). Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accrual against nil debt obligation over the medium term.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 67.10 | 73.52 |
| PAT | Rs. Cr. | 8.34 | 8.65 |
| PAT Margin | (%) | 12.43 | 11.77 |

| | | | |
|-------------------------------|-------|-------|-------|
| Total Debt/Tangible Net Worth | Times | 0.07 | 0.13 |
| PBDIT/Interest | Times | 42.88 | 39.99 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|------------------------|
| 24-Apr-2019 | Packing Credit | Short Term | 9.50 | ACUITE A2 (Reaffirmed) |
| | Bank Guarantee | Short Term | 0.25 | ACUITE A2 (Assigned) |
| 14-Mar-2018 | Packing Credit | Short Term | 9.50 | ACUITE A2 (Upgraded) |
| 24-Feb-2017 | Packing Credit | Short 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/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.25 | ACUITE A2 (Reaffirmed) |

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About Acuite Ratings & Research:

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