Press Release

Herbal Isolates Private Limited

September 23, 2021

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 the Rs.9.75 crore bank facilities of Herbal Isolates Private Limited (HIPL).

The reaffirmation in the rating reflects the long track record of operations of the company and experienced management, healthy financial risk profile. The rating, however, continues to remain constrained on account of working capital intensive operations and fragmented and competitive nature of industry.

About the rated entity

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 60 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, real estate 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 operation 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 pepper since 1984. The company is part of the Synthite group which has interest in diversified industries including spices, hospitality, real estate 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 from the promoter's extensive industry experience over the medium term.

- **Healthy financial risk profile:**
  The financial risk profile of the company is marked by modest networth, low gearing and strong debt protection metrics. The company has a net worth of Rs.71.98 crore as on March 31, 2021 (prov.) as against Rs.64.78 crore as on March 31, 2020. The gearing stood negligible as on March 31, 2021 (prov.) at 0.08 times. Total outside liabilities to total networth (TOL/TNW) stood adequate at 0.13 times as on March 31, 2021. The total debt as on March 31, 2021 (prov.) comprises of short term debt of Rs.5.93 crore which is entirely working capital funds. The interest coverage ratio stood robust at 46.07 times along with NCA/TD which stood adequate at 1.61 times in FY2021 (prov.). Acuité believes lower dependence on external borrowings is likely to support company maintain healthy financial risk profile over the medium term.

Weaknesses

- **Working capital intensive nature of operations:**
  The operations of the company are working capital intensive. The GCA days stood high at 168 days in FY2021 (prov.) as compared to 158 days in FY2020. The GCA days are high owing to high inventory holding and debtors in the range of 70-90 days. The company has to maintain high inventory on account of seasonal availability of its raw materials like green pepper, turmeric, among others. Debtor days stood at 81 days in FY2021 (prov.). Acuité believes that the dependence on agro commodities to fulfil its raw material requirements and diversification to other products will continue to keep operations working capital intensive. However, adequate internal accruals and short term funding support are likely to remain adequate for meeting its working capital requirements.

- **Fragmented and competitive nature of industry:**

  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 Sensitivities

- 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 nil maturing debt obligations. The company generated cash accruals of Rs.10.04-9.56 crore during the last three years through 2019-21, while its maturing debt obligations were nil over the same period. The cash accruals of the company are estimated to remain around Rs.12-17 crore during 2021-23 against nil debt obligation. The packing credit limit of the company remained utilised below 15 percent during the last 12-month period ended March 2021. The current ratio of the company stood healthy at 4.70 times as on March 31, 2021 (prov.). Acuité 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.

Outlook: Not Applicable

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	74.67	62.74
PAT	Rs. Cr.	7.08	8.07
PAT Margin	(%)	9.48	12.87
Total Debt/Tangible Net Worth	Times	0.08	0.02
PBDIT/Interest	Times	46.07	87.76

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
02-Jul-2020	Packing Credit	Short Term	9.50	ACUITE A2 (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	0.25	ACUITE A2 (Reaffirmed)
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)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Packing Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A2 (Reaffirmed)
Union Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE A2 (Reaffirmed)
Proposed Bank Facility		Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A2 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in Pooja Sawant Senior Analyst – Rating Operations pooja.sawant@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.