

## Press Release

Herbal Isolates Private Limited

December 19, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.50	-	ACUITE A2   Assigned
Bank Loan Ratings	9.75	-	ACUITE A2   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	12.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### 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 and assigned the short term rating of '**ACUITE A2**' (read as **ACUITE A Two**) to the Rs.2.50 crore bank facilities of Herbal Isolates Private Limited (HIPL).

#### Rationale for the rating

The reaffirmation in the rating is majorly on account of improvement in operating income during FY2022. The improvement was majorly led by higher demand of spices with better realisations. The rating also factors in the long track record of operations of the company and the experienced management for over four decades. The rating also draws comfort from the healthy capital structure with healthy net worth and low gearing of the company. The liquidity position of the company continues to remain strong with sufficient net cash accruals. The rating, however, continues to remain constrained on account of working capital-intensive operations followed by fragmented and competitive nature of industry.

#### About the Company

HIPL, incorporated in 1984 is a Cochin-based company engaged in processing and trading of spices & 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 55-60 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 with experienced promoters**

The company 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 company, over the years, has built a healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. Also, the business risk profile of the company witness improvement marked by increase in revenues to Rs.88.09 crore in FY2022 as against Rs.74.67 crore in FY2021 majorly higher demand with better realisation of its spices.

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 stood healthy, marked by healthy net worth and low gearing. The tangible net worth stood at Rs.76.71 crore as on 31 March 2022 as against Rs.71.81 crore as on 31 March, 2021 and Rs.64.88 crore as on 31 March, 2020. The total debt of the company stood at Rs.12.32 crore which includes short-term debt of Rs.12.13 crore and Unsecured Loans from directors of Rs.0.19 crore as on 31 March, 2022. The gearing (debt-equity) stood low at 0.16 times as on 31 March 2022 as compared to 0.08 times as on 31 March, 2021 and 0.02 times as on 31 March, 2020. Interest Coverage Ratio stood at 26.28 times for FY2022 as against 45.25 times for FY2021 and 87.76 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 21.23 times in FY2022 as against 36.29 times in FY2021 and 69.58 times in FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.24 times as on 31 March, 2022 as against 0.13 times as on 31 March, 2021 and 0.06 times as on 31 March, 2020. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.61 times for FY2022 as against 1.58 times for FY2021 and 7.70 times for FY2020.

Acuité believes that the lower dependence on external borrowings is likely to support the company in maintaining healthy financial risk profile over the medium term.

## **Weaknesses**

### **>Working capital management: Intensive**

The working capital management of the company is intensive marked by GCA days of 193 days in FY2022 as against 168 days in FY2021 and 158 days in FY2020. The debtor days stood at 103 days in FY2022 as against 80 days in FY2021 and 70 days in FY2020. The reason for the increase in debtors is because their sales peak is generally between Dec to March. The average credit period allowed to customers varies while exporting material and for domestic it would be nearly 40-45 days. The creditor days stood at 31 days in FY2022 as against 22 days in FY2021 and 19 days in FY2020. The average credit period allowed by suppliers is 30 days. The inventory holding period of the company stood at 95 days in FY2022 as against 105 days in FY2021 and 108 days in FY2020. The company has to maintain high inventory on account of seasonal availability of its raw materials like green pepper, turmeric, among others.

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.

### **> Competitive nature of industry impacting profitability**

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 & 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.

Furthermore, the operating profit margin of the company declined to 9.45 percent in FY2022 compared against 14.94 percent in FY2021. The decline in margins is majorly higher input costs. Also, the company is not able to pass on the increased raw material cost due to 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 55-60 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 in profitability.
- Maintaining healthy financial risk profile along with strong liquidity.

### Material covenants

None.

### Liquidity Position: Strong

The company's liquidity position is strong, marked by sufficient net cash accruals against no debt obligations. The company has net cash accruals in the range of Rs.7.58-Rs.9.93 Crore from FY 2020- 2022. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.8.94-10.72 crores over the medium term. However, the working capital management of the company is intensive marked by GCA days of 193 days in FY2022 as against 168 days in FY2021 and 158 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.0.29 crore as on March 31, 2022. The current ratio stands at 3.12 times as on March 31, 2022. The BG utilization by the company is 100% and PCFC utilization during the season i.e., from November to March remains 100% utilized and during off-season it stays at 10%-20% utilized.

Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accrual against no debt obligation over the medium term.

### Outlook

Not Applicable

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	88.09	74.67
PAT	Rs. Cr.	5.13	6.90
PAT Margin	(%)	5.82	9.24
Total Debt/Tangible Net Worth	Times	0.16	0.08
PBDIT/Interest	Times	26.28	45.25

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

None

### 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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Sep 2021	Packing Credit	Short Term	9.50	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	0.15	ACUITE A2 (Reaffirmed)
	Proposed Bank Facility	Short Term	0.10	ACUITE A2 (Reaffirmed)
02 Jul 2020	Bank Guarantee	Short Term	0.25	ACUITE A2 (Reaffirmed)
	Packing Credit	Short Term	9.50	ACUITE A2 (Reaffirmed)
24 Apr 2019	Packing Credit	Short Term	9.50	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A2 (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.25	ACUITE A2   Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	9.50	ACUITE A2   Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A2   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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