

Press Release

Arjuna Natural Extracts Limited (ANEL)

15 November, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr
Long Term Rating	SMERA A/Outlook:Stable
Short Term Rating	SMERA A1

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA A**' (**read as SMERA A**) and short term rating of '**SMERA A1**' (**read as SMERA A one**) on the Rs.50.00 crore bank facilities of Arjuna Natural Extracts Limited (ANEL).

The Kerala-based ANEL, incorporated in 1989 under the directorship of Mr. P.J. Kunjachan and his brother in law, Mr. Benny Antony is engaged in the manufacture of herbal spices' extracts and formulations at Kerala and Tamil Nadu. Currently, curcumin extract from turmeric contributes to over 50 per cent of its overall revenue. The other extracts are boswellia, mustard oil, garcinia, omega fish oil, pomegranate among others. The company has a Research and Development unit in Kerala.

List of key rating drivers and their detailed description

Strengths

Experienced management: The promoter, Mr. P.J. Kunjachan and brother in law, Mr. Benny Antony (Director) have experience of over three decades in the nutraceutical industry. Mr. Antony (PhD) leads the research and development facility. The R&D team has staff of ~57. The extensive experience of the management has helped the company established long term relations with customers in USA and Europe. Exports accounted for around 85 per cent of sales in FY2017.

SMERA believes that the extensive experience of the management in the nutraceutical industry will continue to benefit the company in the near to medium term.

Healthy business profile: The revenues increased to Rs.204.02 crore in FY2017 from Rs.181.22 crore in FY2016 and Rs.160.74 crore in FY2015 mainly on account of increase in demand for turmeric extracts in the international market. The sale of turmeric extract (curcumin) constitutes around ~64 per cent of the revenues of FY2017. The company has established its presence in USA and Europe - large markets for nutraceuticals with exports constituting around 85 per cent of revenue. The company's strong research and development team and successful clinical trials has helped it acquire around 45 patents for various products

and processes such as BCM-95, Oxystorm, Green Coffee extracts, Pomegranate extracts, Amla extracts Amlamax, AKBAMAX (extract of *Boswellia serrata*), Omega-3 among others.

As on September 30, 2017 (Provisional), the company registered revenue of Rs.107.00 crore. SMERA believes that diversification of business (development of new products), exploring new geographies are likely to strengthen the business profile.

Healthy financial risk profile and liquidity position: The company has a healthy networth of Rs.150.52 crore as on 31 March, 2017 against Rs.125.75 crore as on 31 March, 2016. The gearing stood comfortable at 0.28 times as on 31 March, 2017 compared to 0.25 times as on 31 March, 2016. The total debt of Rs.41.64 crore includes long term loan of Rs.19.08 crore and short term borrowing of Rs.22.56 crore.

The company generated net cash accruals of Rs.28.09 crore for FY2017 as against Rs. 27.53 crore for FY2016. The healthy margins and prudently geared capital structure have contributed to the robust cash accruals. The interest coverage ratio stood healthy at 36.08 times in FY2017 as against 39.69 times in FY2016. The NCA/TD ratio stood at 0.67 times in FY2017.

The operations of the company are working capital intensive. The Gross Current Asset stood high in the range of 170-200 days in the last three years owing to high inventory holding and debtors in the range of 80-120 days. The company has to maintain high inventory on account of seasonal availability of its raw material like turmeric, *garcinia cambogia*, *gymnema sylvestre*, mustard among others. SMERA 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. The healthy internal accruals are likely to result in lower dependence on external borrowings for meeting its working capital requirements.

The company has been maintaining its net cash position (investment in liquid funds minus total debt) in the last three years ending 31 March, 2017. The average working capital utilisation stood at ~88 per cent during April to September, 2017.

SMERA believes that healthy cash accruals from operations, significant investments in liquid assets and absence of any significant capex plans are expected to support the financial risk profile in near to medium term.

Weaknesses

Declining profitability trend: The company registered declining operating margin trend in the last three years. The margins registered a decline to 19.81 per cent in FY2017 from 23.16 per cent in FY2016 and 29.85 per cent in FY2015. This was mainly on account of increasing competition from Sami Labs Limited (Sabinsa), Indena (Meriva), Verdure Sciences (Longvida) among others in the international market resulting in competitive pricing and reduced bargaining power. Further, volatility in raw material prices and quality variations are other factors responsible for decline of margins. The company has continuously developed new products like red spinach extracts, pharma grade fish oil, ashwagandha extracts, *Costus igneus* extracts among others and has also improved its operating efficiency by setting up a solvent extraction plant. This has helped reduce loss due to quality deterioration of the raw material.

Further, the net margins stood at 13.12 per cent in FY2017. The company earned operating profits of Rs.26.32 crore and net profits of Rs.16.51 crore from April to September, 2017(provisional).

SMERA believes that the ability of the company to innovate and maintain a healthy pipeline of innovative products will be critical to the future growth in revenues and accruals.

Susceptibility of margins to fluctuations in raw material prices: The margins of the company are susceptible to fluctuations in raw material prices as majority of the raw material purchased are agro commodities. The prices of agro commodities remain volatile owing to their dependence on various factors including the monsoon, acreage under cultivation, government regulations etc.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the rating.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that ANEL will maintain a stable outlook over the medium term on account of its experienced management and healthy business profile. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while achieving healthy profit margins and managing its working capital efficiently. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profitability or elongation in its working capital cycle translating to deterioration in its financial risk profile.

About the Rated Entity

For FY2016-17, ANEL reported profit after tax (PAT) of Rs. 26.78 crore on operating income of Rs.204.02 crore compared with PAT of Rs.23.21 crore on operating income of Rs.181.22 crore for FY2015-16.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	NA	NA	NA	17.00	SMERA A/Stable
Cash Credit	NA	NA	NA	0.80	SMERA A/Stable
Export Packing Credit/PCFC	NA	NA	NA	7.00	SMERA A1
FDBP	NA	NA	NA	0.20	SMERA A1
Preshipment Financing Under Export Orders Facility**	NA	NA	NA	25.00	SMERA A1

**Sublimits in Standard Chartered facility of Rs.25.00 crore - Overdraft facility – Rs.5.00 crore, Short term facility – Rs. 5.00 crore, Credit Bills Negotiated – Discrepant Facility – Rs.25.00 crore, Export Invoice Financing – 35.00 lakh dollars, Bond & Guarantee facility – Rs.15.00 crore, Import Letter of Credit – Unsecured – Rs.15.00 crore & Financial Guarantees/Standby Letter of Credit – Rs.15.00 crore.

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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