Press Release

Praksons Extracts India Private Limited

June 04, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 13.50 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long term rating of **'ACUITE B+' (read as ACUITE B Plus)** on the Rs.13.50 crore bank facilities of Praksons Extracts India Pvt Ltd (PEIPL). The outlook is **'Stable'**.

Incorporated in February 2016, Praksons Extracts India Pvt Ltd (PEIPL) is setting up a 2400 tonnes per annum (TPA) of Curcumin extraction and 240 tonnes per annum (TPA) of other spices (pepper, nutmeg, ginger) extraction plant in Hubli (Karnataka) at a total project cost of Rs.14.50 crore. The company is promoted and managed by Mr. Prakash Jani and Mr. Amit Jain.

Key Rating Drivers

Strengths

- **Low funding risk**
  PEIPL is setting up the project at a cost of Rs.14.50 crore. The same is proposed to be funded out of term loan of Rs.8.00 crore, promoters margin of Rs.3.50 crore and subsidy of Rs.3.00 crore under Kisan Sampada Scheme (under the Ministry of Food Processing). However, to expedite the project, the promoters have bridge financed to the extent of subsidy portion also. They have invested so far about Rs.10.00 crore on this project, Rs.5.00 crore each from their own and bank loan as of April 30, 2018. The promoters are high net worth individuals and are into pharmacy business for more than three decades. The project is complete to an extent of about 70 percent, and required machinery has been imported and is ready for erection. With the funds in place and the current progress, the project is expected to be operational around August 2018.

- **Strategic location of plant**
  India is a major producer of turmeric in the world with 80 percent of share. Major producing states are Telangana, Karnataka, Tamil Nadu, Andhra Pradesh, Orissa and Maharashtra. PEIPL's plant is situated in Hubli (Karnataka). PEIPL shall be procuring turmeric locally and from Salem, Erode in Tamil Nadu which leads to abundant availability of raw materials with lower transportation costs. Acuité believes that PEIPL is expected to benefit from the strategic location of the plant in terms of effective sourcing, and marketing of its product.

Weaknesses

- **Exposure to implementation and demand risks associated with the ongoing project**
  PEIPL is setting up a spice extraction plant with 70 percent of construction completed till April 2018, thus being exposed to moderate implementation risk. Though, the funds are tied up in completion of the project for commencement of operations by August 2018, however timely completion of the project and stabilisation of the operations are key rating sensitivity factors.

- **Exposure to intense competition in the highly-fragmented spice extraction industry**
  PEIPL operates in an industry marked by low entry barriers because of high capital requirement. However, the market is dominated by large players, and faces intense competition not only from domestic players, but also from international players, leading to pressure on price realisations and profitability. Lastly, being a new player in the industry, early stabilisation in the product quality and penetration in the market are key rating sensitivity factors.

- **Exposure to volatility in raw material prices**
  As the raw materials are agro-based, their prices are highly volatile in nature. This leads to fluctuation in revenues and profitability.

Analytical Approach
Acuité has considered the standalone business and financial risk profiles of PEIPL to arrive at this rating.

Outlook: Stable
Acuité believes that PEIPL will benefit from the low funding risk and promoters entrepreneurial experience in the pharma distribution business. The outlook may be revised to 'Positive' in case of early stabilisation of the project and better-than-expected revenues and healthy cash accruals. Conversely, the outlook may be revised to 'Negative' in case of delay in completion of project or any significant time and cost overruns leading to stretch on the liquidity.

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Manufacturing Entities: https://www.acuite.in/criteria-manufacturing.htm
- Application of Financial Ratios and Adjustments: https://www.acuite.in/criteria-fin-ratios.htm
- Default Recognition: https://www.acuite.in/criteria-default.htm

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

Rating History (Upto 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE B+/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings 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.