Press Release

Arjuna Natural Limited

(Formerly known as Arjuna Natural Extracts Limited)

February 05, 2019

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A**' **(read as ACUITE A)** and short term rating of **'ACUITE A1' (read as ACUITE A one)** on the Rs. 50.00 crore bank facilities of ARJUNA NATURAL LIMITED (ANL). The outlook is **'Stable'**.

The Kerala-based ANL, 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 67 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.

Analytical Approach

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

Key Rating Drivers

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 87 per cent of sales in FY2018.

Acuité 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.228.25 crore in FY2018 from Rs.204.09 crore in FY2017 and Rs.181.22 crore in FY2016 mainly on account of increase in demand for turmeric extracts in the international market. The sale of turmeric extract (curcumin) constitutes around ~67 per cent of the revenues of FY2018. The company has established its presence in USA and Europe - large markets for nutraceuticals with exports constituting around 87 per cent of revenue. The company's strong research and development team and successful clinical trials has helped it acquire around 76 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 December 31, 2018 (Provisional), the company registered revenue of Rs.193.54 crore.

Acuité 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.174.86 crore as on 31 March, 2018 against Rs.150.53 crore as on 31 March, 2017. The gearing stood comfortable at 0.20 times as on 31 March, 2018 compared to 0.28 times as on 31 March, 2017. The total debt of Rs.35.80 crore includes long term loan of Rs.13.40 crore, unsecured loans of Rs. 2.15 crore and working capital funds of Rs.20.24 crore. The company generated net cash accruals of Rs.27.12 crore for FY2018 as against debt obligation of Rs. 3.55 crore. The healthy margins and prudently geared capital structure have contributed to the robust cash accruals. The interest coverage ratio stood healthy at 14.75 times in FY2018 as against 36.08 times in FY2017. The NCA/TD ratio stood at 0.76 times in FY2018 as against 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. 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. 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, 2018. The average working capital utilisation stood at ~61 per cent for the last six months ended December, 2018.

Acuité 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 four years. The margins registered a decline to 17.14 per cent in FY2018 from 19.83 per cent in FY2017, 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.

Acuité 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.

Liquidity Position

ANL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.27.70 to 32.79 crore during the four years through 2015-18, while its maturing debt obligations were in the range of Rs.1.62 to 3.55 crore over the same period. The cash accruals of the company are estimated to remain around Rs.39.53 – 45.64 crore during 2019-21 while its repayment obligation are estimated to be around Rs. 3.35 Crore. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 173 in FY 2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the company remains utilized at ~62 percent during the last 6 months period ended December 2018. The company maintains unencumbered cash and bank balances of Rs.46.27 crore as on March 31, 2018. The current ratio of the company stand healthy at 3.91 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that ANL 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 - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	228.25	204.09	181.22
EBITDA	Rs. Cr.	39.13	40.48	41.98
PAT	Rs. Cr.	24.35	26.78	23.21
EBITDA Margin	(%)	17.14	19.83	23.16
PAT Margin	(%)	10.67	13.12	12.81
ROCE	(%)	19.23	21.78	25.79
Total Debt/Tangible Net Worth	Times	0.20	0.28	0.25
PBDIT/Interest	Times	14.75	36.08	39.69
Total Debt/PBDIT	Times	0.81	1.00	0.73
Gross Current Assets (Days)	Days	173	176	212

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Nov-2017	Term Loan	Long Term	17.00	ACUITE A / Stable (Assigned)
	Cash Credit	Long Term	0.80	ACUITE A / Stable (Assigned)
	Packing Credit	Short Term	7.00	ACUITE A1 (Assigned)
	Preshipment Financing Under Export Orders Facility	Short Term	0.20	ACUITE A1 (Assigned)
	Packing Credit	Short Term	25.00	ACUITE A1 (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
Term loans	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE A / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A1 (Reaffirmed)
Preshipment Financing Under Export Orders Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A1 (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1 (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A1 (Assigned)

Preshipment Financing Under Export Orders Facility includes Sublimits 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.

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About Acuité Ratings & Research:
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