

Press Release

Bos Natural Flavors Private Limited

March 11, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.60.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A2**' (**read as ACUITE A two**) to the Rs.60.00 Cr bank facilities of BOS NATURAL FLAVORS PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 2007, Bos Natural Flavors Private Limited (BNPL) is promoted by Mr. O.S. Bobby and his wife Mrs. Shiny Bobby and is based out of Perumbavoor, Kerala. The company is engaged in the business of manufacturing oleoresins and essentials oils used primarily in medicine, food and cosmetic industries. In addition, the company also trades in various commodities such as chilly, pepper, ginger, cardamom, etc.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of BNPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of the promoters**

BNPL is promoted by Mr. Bobby and Mrs. Shiny Bobby with more than a decade's experience in the spices & oleoresins industry. The company was incorporated in 2007 and was gradually expanded to the present total capacity of 3,000 metric tons per annum (MTPA) for spice oils and 5,000 MTPA for spice oleoresins at its plants situated in Kerala. BNPL has a competent management supported by a team of well qualified and experienced second line personnel. The promoter's experience in spices and oleoresins industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. The company has trade liaisons with customers in countries such as Vietnam, Sri Lanka, Morocco, Guatemala, etc. BNPL reported revenue of Rs. 95 Cr in FY2019 against Rs. 81 Cr in FY2017 representing a CAGR of 8.27 percent over the last three years. Further, the management has a progressive business acumen reflected by the diversification into retail business with recent brand acquisition of a well-known condiment brand based out of Kerala, named "Priyom". Going forward, this is expected to augment the expansion of business operations. Acuité believes that the experience of the management in the industry is likely to favorably impact the business risk profile of the company over the near to medium term.

- **Moderate financial risk profile**

BNPL has a moderate financial risk profile marked by moderate tangible networth, moderate gearing and strong coverage indicators. The gearing of the company stood moderate at 1.14 times as on March 31, 2019 against 1.95 times as on March 31, 2018. Gearing is expected to further improve and remain low on account of low utilization of working capital limits. Total outside liabilities to tangible networth (TOL/TNW) stood at 1.62 times as on March 31, 2019 against 0.67 times as on March 31, 2018. The net worth of BNPL stood moderate at Rs. 23 Cr as on March 31, 2019 against Rs. 16 Cr as on March 31, 2018. The increase in the networth is on account of healthy accretion to reserves due to healthy profitability. The total debt of Rs. 26 Cr as on March 31, 2019 comprises short-term working capital debt from the bank of Rs. 18 Cr, long term debt of Rs. 7.6 Cr and unsecured loans of Rs. 0.39 Cr. Further, the company acquired the manufacturing facilities of Priyom Condiments Private Limited with a total cost of Rs. 14 Cr which was availed by bank loans of Rs. 9 Cr and remaining through internal accruals.

Interest Coverage Ratio (ICR) stood at 6.17 times for FY2019 against 6.83 times for FY2018. Similarly, Debt Service Coverage Ratio (DSCR) stood at 3.13 times for FY2019 against 3.33 times for FY2018. Further, the net

cash accruals of the company stood at Rs. 8.4 Cr for FY2019 against repayment obligation of Rs.1.2 Cr. Acuité believes that the financial risk profile of the company is expected to remain moderate in the near to medium term backed by healthy profitability levels and moderate gearing.

• **Moderate working capital intensive operations**

BNPL has moderate working capital operations as evident from Gross Current Assets (GCA) of 80 days as on March, 2019 as against 68 days as on March, 2018. The intense GCA days were mainly due to increase in debtor levels in FY2019. The inventory days stood at 36 days in FY2019, since the company maintains inventory levels of 2 months due to seasonal nature of the raw material procurement. The debtor's days stood at 88 days as on March, 2019 compared to 68 days as on March, 2018. This is due to major amount of revenue being billed at March 2019. Although, the working capital operations are moderately intensive, the company has been able to manage its inventory well which has led to lower utilization of working capital limits over the past nine months ended January 2020 to the extent of 85 percent. Acuité believes that the working capital operations of the company will remain moderately intense with prudence in maintaining stock levels and moderate debtor levels.

Weaknesses

• **Susceptibility of margins with respect to volatility in raw materials prices due to government regulations and foreign exchange**

BNPL's operating profitability is susceptible to volatility in raw material prices of black pepper, cardamom, chilli and other herbs and spices which are procured internationally i.e. from Morocco, Guatemala, Vietnam, to name a few, and also locally. Also, since BNPL is into both exports and imports of spices, it is regulated by the government (Spices Board India) thereby exposing it to a certain degree of regulatory risks. The company also exports around 50-55 percent which partially mitigates the foreign exchange fluctuation risk. The risk however continues to remain as the company does not actively hedge its balance foreign exchange exposure.

Rating Sensitivities

- Growth in scale of operations with sustainable increase in the topline while maintaining its profitability
- Elongation in working capital cycle leading to deterioration in financial risk profile and stretch in liquidity

Material Covenants

None

Liquidity: Adequate

BNPL has adequate liquidity marked by healthy net cash accruals of Rs. 8.39 Cr against maturing debt obligations of Rs.1.16 Cr in FY2019. The operations are moderately working capital intensive as marked by moderately high gross current asset (GCA) days of 88 days in FY2019 as compared to 70 days in FY2018. However, the working capital limits of the company remains utilized at an average ~85 per cent during the last nine months period ended January 2020. The unencumbered cash and bank balances stood at Rs. 0.90 Cr as on March 31, 2019. The current ratio stood at 1.26 times as on March 31, 2019. Acuité believes that the liquidity of the company will remain adequate on account of healthy net cash accruals against moderate repayment obligations, liquid investments and judicious utilisation of working capital facilities.

Outlook: Stable

Acuité believes that BNPL will maintain a 'Stable' outlook over the medium term from the management's industry experience and business sense. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations with significant growth in its revenues along with improvement in the 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	95.25	74.46
PAT	Rs. Cr.	6.87	4.60
PAT Margin	(%)	7.21	6.18
Total Debt/Tangible Net Worth	Times	1.14	1.95
PBDIT/Interest	Times	6.17	6.83

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto 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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB/Stable
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A2
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/Stable
Term Loan	30-Nov -2019	Not Applicable	28-Feb-2027	9.00	ACUITE BBB/Stable
Term Loan	31-Mar-2019	Not Applicable	31-Mar-2024	3.00	ACUITE BBB/Stable
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A2
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2

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About Acuité Ratings & Research:

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