



Press Release
HERBOCHEM INDUSTRIES PRIVATE LIMITED
October 29, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	175.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	175.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple Bo**)n the bank facilities of Rs.175.00 Crore of Herbochem Industries Private Limited (HIPL). The outlook is '**Stable**'.

Rationale for rating

The assigned rating factors in experienced promoters in the mentha industry and established track record of the company and easy availability of raw material from the local farmers. In addition, the company is able to improve its scale of operations, doing capex related to the value addition products which is expected to fetch better margins for the company in near to medium term. The financial risk profile of the company continues to remain moderate supported by the debt protection metrics and comfortable coverage indicators. These rating strengths are partly off-set by the higher reliance on the short term borrowings, however, liquidity will remain supported by the excess accruals against the repayments and volatility in raw material prices.

About the Company

The company was initially started as proprietorship and thereafter the company was incorporated in 2021. It is situated at Barabanki, Uttar Pradesh and engaged into manufacturing of mentha and its allied products. HIPL remains the only operation factory in Barabanki which gives it procurement advantage of quality natural raw material. The company is manufacturing 15 to 20 aroma chemicals & fine fragrance products the company is also in the process of manufacturing other Aroma Ingredients. The directors of the company are Mr. Hari Prasad Gupta and Mr. Ashish Gupta.

Unsupported Rating

Not applicable.

Analytical Approach

Acuite has considered the standalone operational and financial profile of Herbochem Industries Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and Established track record of operations

The company started its operations in 2021 as prior to that it was a proprietorship firm and has a long track record of experience in the mentha industry. Over the years, it has been able to successfully establish itself with past record of successful executions of the projects. The promoters of the company have an experience of more than five decades. Further, the company benefits from the long-term experience of the promoters in this industry including key promoters who are Mr. Hari Prasad Gupta and Mr. Ashish Gupta. Acuite believes that the long track

record of business has enabled in developing established customer and supplier network.

Improvement in the scale of operations

The company has clocked revenue of Rs.421.80 Crore in FY24 against Rs.312.24 Crore in FY23. The increase in the sales is derived through various reasons including prices of menthol, easy availability of raw material supported by increase in the capacity utilization as compared to previous years. In addition, the operating margins of the company are improved which stood at 6.78% in FY24 against 6.75% in FY23 as the company has also saved upon the raw material cost which leads to improvement in the operating margins of the company and PAT margins of the company has also improved which stood at 1.99% in FY24 against 1.90% in FY23. In addition, the company

faced decline in the top-line due to third wave of Covid in China Impacted operational profile of the company as the majority of sales is being contributed from the same country. Going forward, the company is expected an improvement in the top-line under the range of 10%-15% of the existing top-line and likely to be supported by the better margins as compared to previous years. The company has also earned substantial revenue in H1 ending September 2024. In addition, the company does have substantial future order book which is expected to be executed by the year end and meanwhile inflow of additional orders is expected and the delivery of same is expected as per the nature of the orders. Acuite believes that the company will be able to fetch better margins due to addition of value added products in the product portfolio.

Moderate financial risk Profile

The financial risk profile of the company is moderate marked by net-worth of Rs.86.95 Crore as on 31st March 2024 against Rs.77.80 Crore as on 31st March 2023. The increase in the net-worth is on an account of accumulation of profits into reserves. Further, the total debt of the company stood at Rs.159.29 Crore as on 31st March 2024 against Rs.162.41 Crore as on 31st March 2023. The gearing of the company high stood at 1.83 times as on 31st March 2024 against 2.09 times as on 31st March 2023.

In addition, the coverage indicators of the company are comfortable reflected by interest coverage ratio and debt service coverage ratio which stood at 2.47 times and 1.57 times respectively as on 31st March 2024 against 2.32 times and 2.05 times respectively as on 31st March 2023. The TOL/TNW ratio stood at 1.92 times as on 31st March 2024 against 2.21 times as on 31st March 2023. Further, the debt-EBITDA of the company stood at 5.54 times as on 31st March 2024 against 7.68 times as on 31st March 2023 due to reliance on the short term borrowings. Acuite believes that financial risk profile of the company is likely to remain in the same range in near to medium term in the absence of any long term debt.

Weaknesses

Working Capital Intensive Operations

The working capital operations of the company is intensive marked by GCA days which stood at 190 days as on 31st March 2024 against 254 days as on 31st March 2023. The GCA days improved on an account of the improved inventory days which stood at 134 days as on 31st March 2024 against 220 days as on 31st March 2023. Further, company deals with overseas clients and need to provide them healthy credit period, despite same, the debtor days of the company are efficiently managed which stood at 46 days as on 31st March 2024 against 34 days as on 31st March 2023. In results, reliance on bank lines stood high with average utilization during last seven months of 96.13% ending July 2024. Acuite believes that improvement in the working capital management leading to lower reliance on the external borrowings will remain a key sensitive factor in near to medium term.

Price Volatility Risk and competition

Raw Material of the product is inherited to the susceptibility of price volatility risk attributed to its seasonal nature and dependent on the weather conditions, linked to the international price, besides demand in the market along with competition from peers could impact the profit margins in future.

Rating Sensitivities

- Movement in the scale of operations of the company.
- Movement in the financial risk profile of the company.

Liquidity Position

Adequate

The liquidity profile of the company is adequate. The company has generated net cash accruals of Rs.13.46 Crore as on 31st March 2024 against the debt repayment obligation of Rs.4.40 Crore in the same period. Going forward, the company is expected to generate net cash accruals under the range of Rs.20 Crore against the debt repayment obligations of under the range of Rs.5.00 Crore in the same period. The current ratio of the company stood at 1.42 times as on 31st March 2024 against 1.37 times as on 31st March 2023. The company does have cash and bank balance of Rs.3.90 Crore as on 31st March 2024 against Rs.1.92 Crore as on 31st March 2023. In addition, free FDRs of Rs.9.59 Crore as on 31st March 2024 which provides additional comfort to support the liquidity of the company. Further, the bank limit utilization of the company stood at 96.13% in last seven months ended July 2024. Acuite believes that liquidity profile of the company is expected to improve in near to medium term with steady accruals.

Outlook: Stable

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	421.80	312.24
PAT	Rs. Cr.	8.37	5.94
PAT Margin	(%)	1.99	1.90
Total Debt/Tangible Net Worth	Times	1.83	2.09
PBDIT/Interest	Times	2.47	2.32

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. Acuité'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.

Rating History :

Not applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Indusind Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	85.00	Simple	ACUITE BBB Stable Assigned
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	45.00	Simple	ACUITE BBB Stable Assigned
Yes Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	16.00	Simple	ACUITE BBB Stable Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	29.00	Simple	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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