

October 28, 2022

Chemiloids Life Sciences Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Cash credit	10.00	10.00	[ICRA]BB+(Stable); reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-I

Rationale

The rating factors in Chemiloids Life Sciences Private Limited's (CLSPL) extensive experience of more than four decades in manufacturing of herbal extracts and its diversified client base. Further, the customer concentration remained moderate with its top five customers accounting for 65-75% of the total sales in FY2021 and FY2022. The rating factors in the company's comfortable financial risk profile, as indicated by a low gearing of 0.4 times as on March 31, 2022 and comfortable coverage indicators with an interest coverage of 15.4 times, Total Debt/OPBITDA of 1.0 times and NCA/TD of 62.3% in FY2022.

The rating is, however, constrained by the company's moderate scale of operations despite growth in revenues by 24.3% in FY2022 to Rs. 62.6 crore from Rs. 50.4 crore in FY2021. The company is expected to record a revenue growth of 10-15% in FY2023 on the back of healthy demand for the products. The rating is also constrained by high working capital intensity, owing to high inventory levels. Moreover, its inventory-holding increased in the last two years, leading to an increase in the working capital intensity to 49.9% in FY2022 from 34.0% in FY2021. The rating is constrained by the exposure of its profitability to fluctuations in raw material prices, as witnessed in the past, and stiff competition in the herbal extract manufacturing industry from both organised and unorganised players.

The Stable outlook on the rating reflects ICRA's opinion that the company would benefit from the extensive experience of its promoters and its financial profile would remain comfortable.

Key rating drivers and their description

Credit strengths

Established track record in manufacturing of herbal extract products – CLSPL has been involved in the manufacturing of various herbal extract products since 1976. The company has approval from the Department of AYUSH, Government of Telangana, to manufacture more than 400 herbal extracts such as amla, ashwagandha, basil, neem, shikakai, etc. The company manufactures both individual and mixed herbal extracts based on the orders received.

Diversified and reputed customer base – The company supplies herbal extracts to domestic customers involved in manufacturing of ayurvedic formulations. Its diversified customer profile includes reputed names such as Charak Pharma Private Limited, Sundyota Numandis Pro Bioceuticals Pvt Ltd., Officedge India Private Limited etc. The customer concentration remained moderate with the top five customers accounting for 65-75% of the total sales in FY2021 and FY2022.

Healthy capital structure and coverage indicators – The company's capital structure is comfortable with a gearing of 0.4 times as on March 31, 2022 owing to low debt, which largely includes working capital borrowings. The company's coverage indicators remained comfortable with an interest coverage of 15.4 times, Total Debt/OPBITDA of 1.0 times and NCA/TD of 62.3% in FY2022. ICRA expects the capital structure to remain healthy with steady year-on-year accretions and no plans of availing any term loans in the near term.

Credit challenges

Moderate scale of operations – The scale of operations for the company has remained moderate despite a 24.3% increase in revenues to Rs. 62.6 crore from Rs. 50.4 crore in FY2021, limiting its financial flexibility. CLSPL recorded a revenue of Rs. 35.9 crore in H1 FY2023 and is expected to post moderate revenue growth in FY2023 with steady order inflows.

High working capital intensity – The working capital intensity of operations increased to 49.9% in FY2022 from 34.0% in FY2021 on account of the increased inventory holding and receivables period. The company maintains high inventory due to seasonality in availability of the herbs. The inventory holding increased as on March-end because of bulk purchases of herbs in Q4 FY2022. With higher revenue in Q4 FY2022, the receivables also increased to 65 days as on March 31, 2022 from 36 days as on March 31, 2021 which in turn resulted in high working capital intensity of operations. ICRA expects the working capital intensity to remain high in the near term, given the seasonality in procurement of herbs.

Intense competition in industry – The herbal extract manufacturers face stiff competition from organised and unorganised players. Further, the ayurvedic industry faces competition from other established allopathic drugs.

Susceptibility of profitability to fluctuations in raw material prices – Raw material prices account for a large proportion of the total cost and are volatile because of its seasonality. Moreover, raw material prices and availability depend on climatic conditions. The raw material prices have increased in FY2022 and FY2023 and are expected to tone down profitability to an extent in the near term.

Liquidity position: Adequate

The liquidity position is **adequate** as reflected by Rs.11.2 crore buffer available in working capital limits along with around Rs.0.5 crore free cash and bank balances against nil repayment in the next 12 months. The company does not have any significant capex plans in the near term and is expected to meet the capex requirements through its available cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade CLSPL's rating if there is material growth in the scale of operations while maintaining its profit margins. An improvement in liquidity position with better management of working capital cycle would be a critical trigger for an upgrade.

Negative factors – Pressure on CLSPL's rating could arise if a decline in revenues and operating margins or high dividend pay-out results in lower cash flow generation. Further deterioration in the working capital cycle impacting the company's liquidity position could also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered standalone financials of CLSPL

About the company

CLSPL was established in 1976 as a partnership firm by Mr. G. Ganga Raju and his family. The partnership firm was converted into a private limited company in 2014. It is involved in manufacturing of herbal extract products, which are used in ayurvedic formulations. The company manufactures more than 400 herbal extracts such as *amla*, *ashwagandha*, *tulsi*, etc. CLSPL is a part of the Laila Group of Companies, which is into diverse businesses such as sugar, paper, nutraceuticals, hotels, education, etc.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	50.4	62.6
PAT	6.3	7.5
OPBDIT/OI	19.8%	18.9%
PAT/OI	12.6%	11.9%
Total outside liabilities/Tangible net worth (times)	0.5	0.7
Total debt/OPBDIT (times)	0.3	1.0
Interest coverage (times)	17.6	15.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;

Note: All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated	Amount outstanding	Date & rating in	FY2022	FY2021	FY2020
		(Rs. crore)	as of Sep 30, 2022	FY2023			
				Oct 28, 2022	Jul 30, 2021	-	Jan 07, 2020
1 Cash credit	Long term	10.00	-	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	-	[ICRA]BB+(Stable)
2 Unallocated	Long term	-	-	-	[ICRA]BB+(Stable)	-	[ICRA]BB+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – fund based / Cash credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	10.00	[ICRA]BB+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: NA

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Akshay Dangi
+91 40 4067 6528
akshay.dangi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.