

June 29, 2022

## Vidya Herbs Pvt. Ltd.: Rating of [ICRA]A- (Positive) reaffirmed on existing limits and assigned to enhanced limits

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	115.00	165.00	[ICRA]A- (Positive); reaffirmed on existing limits and assigned to enhanced limits
Long-term Fund-based Working Capital	245.00	420.00	
<b>Total</b>	<b>360.00</b>	<b>585.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has taken into consideration, Vidya Herbs Pvt. Ltd. (VHPL) along with its subsidiaries, Manko Natural Flavours and Extracts Private Limited (Manko) and Dynadis Biotech India Private Limited (Dynadis), hereinafter referred to as the Vidya Group/the Group. The Positive outlook considers the healthy performance of the company in FY2022 and expected improvement in the company's revenues and profitability margins thereby improving its debt metrics over the near term, on the back of commencement of operations in relatively higher margin-accretive segments like decaffeinated (decaff) coffee, probiotics and oleoresins. The rating continues to factor the established market position of the Group in the herbal extracts segment, its diversified product portfolio, and its reputation as one of the top coffee exporters in India. The rating takes into consideration the significant YoY revenue growth of 89.7% to reach revenues of Rs. 1,165.4 crore in FY2022. The revenue growth was primarily driven by the coffee curing segment (YoY revenue growth of 77%; with new customer additions and more repeat orders with higher volumes from existing customers) and commencement of revenues from the instant coffee and chili oleoresin segment (~Rs. 230 crore in FY2022). The operating margins for FY2022 continued to remain healthy at 15% in FY2022 (as compared to 16% in FY2021). Also, the OPBIDTA improved by ~78% in FY2022 (absolute levels), given the higher base of revenues. The rating also considers the Group's established relationships with a reputed clientele across the herbal extracts as well as the coffee segments, which ensure repeat orders and revenue stability. The rating positively factors in the healthy medium-term revenue growth prospects, given the favourable demand outlook for the coffee segment, in addition to ramp-up in revenues from new segments.

The rating, however, also factors in the increase in debt levels as the company resorted to higher-than-expected borrowings to meet its increased working capital and capital expenditure (capex) requirements. The working capital borrowings increased to Rs. 378.7 crore as on March 31, 2022 from Rs. 223.2 crore as on March 31, 2021 owing to the high working capital intensity (net working capital/ operating income (NWC/OI) of over 55%) primarily due to the company's seasonality requirements and increase in the scale of operations. Also, the long-term borrowings increased to Rs. 190.5 crore as on March 31, 2022 from Rs. 81.3 crore, mainly to fund the capex requirements of its new projects (decaff coffee, vanilla oleoresin) and its emergency credit line loans (ECLGS) of Rs. 66 crore utilised for working capital requirements. Against this backdrop, Net Debt/OPBIDTA was at 3.2x as on March 31, 2022 as compared to 3x as on March 31, 2021, despite substantial improvement in profitability levels. The rating also notes the stiff competition from other players in the herbal extracts and coffee curing segments; however, its partially mitigated through its increasing business diversification. The rating continues to consider the susceptibility of VHPL's earning to foreign exchange fluctuation risk to the extent of unhedged exposures and the susceptibility of raw material availability for its coffee curing operations to fluctuations in agro-climatic conditions.

ICRA also notes the proposed equity infusion of ~Rs 12-15 crore by the promoters in VHPL during FY2023, which would also support the cash flows.

## Key rating drivers and their description

### Credit strengths

**Established presence with diversified revenue stream and strong market position** – VHPL has been manufacturing herbal extracts for over a decade and has substantial market knowledge and a well-established supply chain for the procurement of its raw materials. The strong experience of the promoter helps the company manage its business risks effectively. VHPL diversified into the coffee export business in FY2017 and has established its position as one of the top 10 coffee exporters in India. It has a widespread sales and distribution network, with several marketing setups abroad and representatives across the US, Europe, Japan, Korea and Russia, among others. The addition of chili oleoresin segment has supported the revenue and margin improvement in FY2022. With addition of new segments (which is expected to commence from FY2023) like decaff coffee, probiotics and vanilla oleoresin, further diversification is expected in the revenues, thereby supporting its business prospects.

**Reputed clientele and established customer association** – The Group's reputed customer profile provides comfort with respect to the business prospects and mitigates the counterparty risk. The established association with the key customers, aided by the Group's extensive experience in the industry, ensures repeat orders and aids revenue stability. The increase in the company's direct export sales to its customers, also supports its business prospects. With exports constituting more than 85% of its revenues, the company has established a presence in the US and Europe, which are key markets for nutraceuticals. VHPL has also tied up with a reputed clientele in the coffee and chili oleoresin segments, which will support the revenue growth in the medium term.

**Favourable business prospects provide revenue visibility** – The Group's revenue visibility remains healthy, supported by the favourable demand prospects for its herbal extracts, especially immunity-boosting herbal products. Additionally, its herbal extracts and coffee curing segments witnessed the entry of new customers post the pandemic. Supply constraints in Brazil (the world's largest coffee producer) due to frosts, will impede the company's coffee exports in the near term. Besides, ramp-up in revenues from newly commenced segments are likely to support its revenue growth and improvement in margins in the near term.

### Credit challenges

**Increase in debt levels due to high working capital intensive nature of operations and increased scale** – The Group witnessed higher than expected increase in its borrowings to Rs. 569.2 crore as on March 31, 2022 from Rs 304.5 crore as on March 31, 2021, primarily due to high working capital intensity (on account of higher-than-expected scale of operations) and debt-funded capex requirements. The Group's operations are highly working capital intensive as reflected in NWC/OI of ~55-57% in the past two years, mainly owing to its high receivables cycle (over 130 days) and the seasonality in raw material availability (leading to over 145 days of inventory holding). Going forward, ramp-up in the new segments (wherein the probiotics segment has relatively low working capital requirements) are expected to improve the margins, thereby improving the debt metrics. The Group's ability to ease its working capital intensity with the business diversification remains a key monitorable.

**Margins exposed to foreign exchange fluctuations; susceptibility of raw material availability to agro-climatic conditions** – The Group's raw materials primarily include agro-based commodities such as various herbs and coffee cherries. The availability of the same remains susceptible to variations in agro-climatic conditions. However, the company has not faced major issues in raw material availability in the past. As it is an export-oriented unit, its earnings are exposed to foreign exchange fluctuation risk to the extent of unhedged exposures. The hedging mechanism adopted by VHPL mitigates this risk to an extent.

**Stiff competition from other established players limits pricing flexibility** – The Group faces stiff competition from other players in the herbal and the coffee segment, which limits its pricing flexibility. However, the company's business diversification is expected to partially mitigate the competition risk and thereby supporting healthy margins.

## Liquidity position: Adequate

VHPL's liquidity position is **adequate**, characterised by improvement in liquidity buffer post the enhancement in working capital facilities to the extent of Rs. 230 crore in the past one year. Average utilisation of the working capital facility was moderate at ~82% of the total limits sanctioned to VHPL for the period March 2021 to April 2022. VHPL has undrawn working capital limits to the extent of ~Rs. 90 crore as on May 31, 2022. In terms of repayment obligations, the Group has repayments of Rs. 14.5 crore p.a. in FY2023 and Rs 39 crore in FY2024 (with repayments for new term loans starting from FY2024). In terms of capex, the Group has planned capex of ~Rs. 80.0 crore in FY2023 (for the new projects of probiotics, decaff coffee, vanilla oleoresin and maintenance capex). ICRA expects the internal cash flows to be adequate to meet the repayment obligations on the term loans and capex requirements.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if VHPL demonstrates healthy improvement in its working capital intensity through efficient management of inventory and receivables, while maintaining its healthy margins in addition to improving its coverage indicators on a sustained basis. Specific credit metric which could result in a rating upgrade include Interest coverage of less than 5.5 times on a sustained basis.

**Negative factors** – Given the positive outlook on the ratings, rating downgrade is unlikely in the near term. Negative pressure on VHPL's rating could arise if there is significant weakening of debt coverage indicators owing to reduction in profitability margins or increase in working capital intensity or sizeable debt-funded capital expenditure.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of Vidya Herbs Pvt. Ltd. along with its subsidiaries, Manko Natural Flavours and Extracts Private Limited and Dynadis Biotech India Private Limited.

## About the company

Incorporated in 2004 and promoted by Mr. K. Shyam Prasad, VHPL manufactures herbal extracts, oleoresins and essential oils, which are primarily used in the nutraceuticals industry. The extracts, oils and oleoresins are also used in the processed food and cosmetics industry for enhanced flavour, fragrance, colour and odour preservation, perfumery and aroma therapy. Key products in the herbal extracts segment include extracts of green coffee, turmeric, saw palmetto, coleus, bilberry, and acerola. VHPL acquired two companies, Manko Natural Flavours and Extracts Private Limited and Dynadis Biotech India Private Limited, in FY2014 and FY2015, respectively. While the former manufactures spice extracts, primarily turmeric, the latter produces colouring agents. VHPL also ventured into the coffee curing business from FY2017.

The company's production capabilities include three extraction facilities, two coffee curing facilities, one instant coffee plant, one chilli oleoresin plant and a research and development (R&D) centre. The company is further diversifying into decaff coffee, probiotics and vanilla oleoresin over the near term.

### Key financial indicators (audited)

VHPL Consolidated <sup>@</sup>	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	348.7	614.3	1,165.4
PAT (Rs. crore)	28.8	54.5	117.6
OPBDIT/OI (%)	17.2%	16.0%	15.0%
PAT/OI (%)	8.3%	8.9%	10.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.8	2.2
Total Debt/OPBDIT (times)	3.7	3.1	3.3
Interest Coverage (times)	5.1	5.5	9.2

<sup>@</sup> Adjusting inter-group company transactions; <sup>\*</sup>Provisional; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios are as per ICRA calculations

Source: Company and ICRA Research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 29, 2022	Jun 23, 2022	Sep 08, 2021	Jan 28, 2021 Nov 17, 2020 Sep 22, 2020	Jul 23, 2019 Apr 02, 2019
1	Term Loans	Long Term	165.00	123.00	[ICRA]A-(Positive)	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)
2	Export Packing Credit/Cash Credit	Long Term	420.00	--	[ICRA]A-(Positive)	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)
3	Unallocated Bank Facilities	Long Term and Short Term	--	--		--	Short term rating [ICRA]A2+ withdrawn	[ICRA]A-(Negative)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based – Term Loan	Simple
Long-term Fund-based Working Capital	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](http://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	Export Packing Credit*	NA	NA	NA	420.00	[ICRA]A- (Positive)
NA	Term Loan	FY2018	NA	FY2025	15.00	
NA	Term Loan	FY2022	NA	FY2029	60.00	
NA	Term Loan	FY2022	NA	FY2026	30.00	
NA	Term Loan	FY2022	NA	FY2027	28.00	
NA	Term Loan	FY2022	NA	FY2028	32.00	

Source: Company; \* With sub-limits of CC, WCDL, bill discounting, LC, BG, etc

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure-2: List of entities considered for consolidated analysis

Company Name	VHPL Ownership	Consolidation Approach
Manko Natural Flavours and Extracts Private Limited	99.85%	Full Consolidation
Dynadis Biotech India Private Limited	99.85%	Full Consolidation

Source: Company

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