August 10, 2023

Vidya Herbs Pvt. Ltd.: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	165.00	165.00	[ICRA]A- (Positive); reaffirmed and withdrawn
Long-term Fund-based – Working Capital	420.00	420.00	[ICRA]A- (Positive); reaffirmed and withdrawn
Total	**585.00**	**585.00**	

^Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed and simultaneously withdrawn the ratings for the bank facilities of VHPL at the request of the company and based on the No Objection Certificates received from the bankers, and in accordance with ICRA's policy on withdrawal.

The positive outlook on the long-term rating reflects ICRA's expectations that Vidya Herbs Private Limited's (VHPL/ the company) return and coverage metrics will witness improvement in line with the ramp up pace of its new capacities. The company's probiotic and vanilla capacities have commenced in the current fiscal and are now ramping up. Furrher, given the favourable demand outlook, the company is planning to expand its instant coffee capacities. The associated returns of the segments are expected to benefit VHPL's scale and credit metrics, supported by an expected lower working capital cycle for probiotic and vanilla. The reaffirmation in ratings considers the healthy growth in the company's cash accruals driven by the coffee curing segment (YoY revenue growth of 63%; with new customer additions and steady business from existing customers) and commencement of revenues from the instant coffee segment (~Rs. 188 crore in FY2023) along with overall margin improvements. The rating also considers VHPL's established relationships with its reputed clientele across the herbal extracts as well as coffee segments, which ensure repeat orders and revenue stability. The rating continues to factor in the established market position of VHPL in the herbal extracts segment; its diversified product portfolio, and its reputation as one of the top coffee exporters in India.

The rating, however, also factors in the increase in debt levels in FY2023 as the company resorted to higher-than-expected borrowings to meet its increased working capital and capex requirements. Working capital requirements remained higher than the previous fiscal, led by high coffee volumes, given this is a high working capital intensive business. Consequently, VHPL's Debt/OPBDIT remained elevated while interest coverage moderated in FY2023. Further, the company will be availing additional debt for its instant coffee capex, which will commence from FY2025. Thus, the pace of ramp up of returns of all the new capacities remains crucial.

ICRA notes that the company has received equity of Rs. 35 crore in H2 FY2023, which will support the funding requirements, going forward. VHPL is also expected to avail limit enhancements from lenders. The rating also notes the stiff competition from other players in the herbal extracts and coffee curing segments; however, it is partially mitigated by its increasing business diversification. The rating continues to consider the susceptibility of VHPL's earning to foreign exchange (forex) 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.

Key rating drivers and their description

Credit strengths

Established presence with diversified revenue streams 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 procuring its raw materials. The strong experience of the promoter helps the company manage its business risks effectively. VHPL has been improving its position as one of the top five coffee exporters in India. It has a widespread sales and distribution network, with several marketing setups abroad and representatives across the US, Europe, Japan, South Korea and Russia, among others.

Expanding product portfolio and capacity to support growth – In FY2023, VHPL was able to achieve a ~24% revenue growth led by the coffee curing and instant coffee segments. Moreover, its margin performance was supported by instant coffee, a relatively high margin segment. With the addition of new segments that are expected to ramp up from FY2024, such as decaffeinated coffee beans, probiotics and vanilla oleoresin, further diversification is expected in the revenues, thereby supporting VHPL's business prospects. Moreover, ramp up in earnings with a low working capital cycle is expected to lead to an improvement in the company's credit metrics, going forward. ICRA also notes the significant ramp up in revenues from the instant coffee segment in FY2023, which is expected to increase significantly with the new plant at Belur, near Chikmaglur (Karnataka) which will start full-fledged operations from late FY2025. The ability of the company to display a sustenance in earnings from the new capacities is a key rating monitorable.

Reputed clientele and established customer association across end-user industries like foods and nutraceuticals – The company's reputed customer profile provides comfort with respect to its business prospects and mitigates the counterparty risk to an extent. VHPL's established association with its key customers, aided by its extensive experience in the industry, ensures repeat orders and aids revenue stability. Currently, VHPL has a confirmed order book of ~Rs. 740 crore. 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 segment, which will support its revenue growth in the medium term.

Credit challenges

High working capital intensive nature of operations led by high stockholding and receivable cycle – The company witnessed a higher-than-expected increase in its borrowings to Rs. 802.4 crore as on March 31, 2023, from Rs. 573.9 crore as on March 31, 2022, primarily due to high working capital intensity (on account of higher-than-expected scale of operations, especially from the coffee curing segment) and ongoing debt-funded capex. The company'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 (more than 135 days) and the seasonality in raw material availability (leading to over 140 days of inventory holding). Long-term debt is expected to increase for the new instant coffee capacity while ramp-up in the new segments, wherein working capital requirements are expected to be lower, could limit additional debt dependence. The company's ability to ease its working capital intensity with the business diversification remains a key monitorable.

Margins exposed to forex 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 forex 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 company 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, thereby supporting healthy margins. Given the competitive scenario, the ramp up in the fresh segments remains to be seen. Moreover, the fresh capex plans for the instant coffee segment would moderate credit metrics in the medium term.

Liquidity position: Adequate

VHPL's liquidity position is adequate, characterised by available liquidity buffer following the enhancement in working capital facilities to Rs. 645 crore in the past one year. Average utilisation levels are moderately high at ~84% for the period November 2022 to June 2023. VHPL had undrawn working capital limits to the extent of ~Rs. 70 crore as on June 30, 2023, while its subsidiary had negligible buffer of as of June 30, 2023. In terms of repayment obligations, VHPL has repayments of Rs. 40.86 crore in FY2024 and Rs. 63.49 crore in FY2025 (with repayments for new term loans starting from FY2024). In terms of capex, the company has fresh plans of ~Rs. 150.0 crore over FY2024 and FY2025 for the new instant coffee unit, apart from the ongoing capex, which will be partly debt-funded. ICRA expects the internal cash flows to be adequate to meet the repayment obligations on the term loans.

Rating Sensitivities

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

Negative factors – Given the positive outlook on the ratings, a 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	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
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 functional subsidiary, Manko Natural Flavours and Extracts Private Limited. Dynadis Biotech India Private Limited has been merged into VHPL in FY2023.

About the company

Established in 2004 by Mr. K. Shyam Prasad, Vidya Herbs Private Limited manufactures herbal extracts and essential oils, which are used in the nutraceuticals industry as dietary supplements to meet nutritional deficiencies and prevent diseases. Extracts, oils and oleoresins are also used in industries such as processed foods, perfumery, aroma therapy and cosmetics for enhanced flavour, fragrance, colour and odour preservation. In addition, in FY2017, the company ventured into the export of cured coffee, thereby diversifying its revenue stream. Latest additions to its product portfolio include instant coffee, decaffeinated coffee beans, probiotics and vanilla oleoresin.

With more than a decade of experience in manufacturing herbal extracts, VHPL has substantial market knowledge and a well-developed supply chain for procuring requisite herbs. The company's experienced R&D team aids in continuous new product development suited to changing customer needs. The company has two subsidiaries—Manko Natural Flavours & Extracts P Ltd. (Manko) and Dynadis Biotech India P Ltd. (Dynadis). The company has recently shared that Dynandis' standalone operations were closed down in H2 FY2023 and its business of colouring agents was taken over by VHPL.

Key financial indicators (audited)

VHPL consolidated	FY2021	FY2022	FY2023*
Operating income	764.7	1180.5	1466.1
PAT	54.5	104.5	140.1
OPBDITA/OI	12.9%	14.6%	17.1%
PAT/OI	7.1%	8.8%	9.6%
Total outside liabilities/Tangible net worth (times)	1.8	2.3	2.1
Total debt/OPBDITA (times)	3.1	3.3	3.2
Interest coverage (times)	5.5	8.7	4.8

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

**Estimated figures based on provisional standalone financials of VHPL and provisional key financial indicators of subsidiaries*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sl. No.	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Aug 10, 2023	Jun 23, 2022 Jun 29, 2022	Sep 08, 2021	Jan 28, 2021 Nov 17, 2020 Sep 22, 2020
1	Term Loans	Long-term	165.00	107.18	[ICRA]A- (Positive); Withdrawn	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
2	Working Capital Limits	Long-term	420.00	-	[ICRA]A- (Positive); Withdrawn	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
3	Unallocated Bank Facilities	Long-term & Short-term	-	-	-	-	Short term rating [ICRA]A2+ withdrawn	[ICRA]A- (Negative)/ [ICRA]A2+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Simple
Working Capital Limits	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: ***Click Here***

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital limits	NA	NA	NA	420.00	[ICRA]A- (Positive); Withdrawn
NA	Term Loans	FY2018	NA	FY2025	15.00	[ICRA]A- (Positive); Withdrawn
NA	Term Loans	FY2022	NA	FY2029	60.00	[ICRA]A- (Positive); Withdrawn
NA	Term Loans	FY2022	NA	FY2026	30.00	[ICRA]A- (Positive); Withdrawn
NA	Term Loans	FY2022	NA	FY2027	28.00	[ICRA]A- (Positive); Withdrawn
NA	Term Loans	FY2022	NA	FY2028	32.00	[ICRA]A- (Positive); Withdrawn

Source: Company

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

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545308
sheetal.sharad@icraindia.com

Susovan Mondal
+91 124 4545392
susovan.mondal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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