September 08, 2021

Vidya Herbs Pvt. Ltd.: Rating reaffirmed and assigned for enhanced amount; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	48.00	115.0	[ICRA]A-; Reaffirmed/Assigned; outlook revised to Stable from Negative
Long-term Fund-based Working Capital	177.00	245.0	[ICRA]A-; Reaffirmed/Assigned; outlook revised to Stable from Negative
Long-term/Short-term Unallocated	15.00	-	Short term rating [ICRA]A2+ withdrawn
Total	**240.00**	**360.0**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the rating, ICRA has consolidated the financials of 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 rating factors in the Group's established market position in the herbal extracts industry, its diversified product portfolio, and its reputation as one of the top coffee exporters in India. The rating takes into consideration the substantial increase in revenues to Rs. 613.5 crore in FY2021 from Rs. 348.7 crore in FY2020 on the back of the strong demand traction in immunity-driving herbal products as well as the deferral of orders in Q4 FY2020 (due to the Covid-19 pandemic-induced lockdown). The coffee curing segment's revenues grew ~110% YoY in FY2021 on the back of an increase in repeat orders from existing customers with higher volumes and the addition of new and reputed customers (like Nespresso, Lavazza, etc.).

The operating margins declined to 16.6% in FY2021 from 17.2% in FY2020 due to the increase in the share of coffee segment revenues (which generates lower profitability); however, the OPBIDTA improved by ~70% in FY2021 (absolute levels), given the higher base of revenues. Total Debt/OPBDITA improved to 3.0 times as on March 31, 2021 from 3.7 times as on March 30, 2020 backed by the improved profitability. Going forward, the sustainability of the operating margins will remain a key monitorable.

The rating 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 strong medium-term revenue growth prospects, given the favourable demand outlook for the herbal extracts segment, coupled with the commencement of operations at the newly setup oleoresin extraction and instant coffee units. The rating continues to derive comfort from the Group's established research and development (R&D) setup, which supports its long-term business sustainability and growth prospects.

The rating, however, remains constrained by the Group's working capital intensive operations, mainly owing to its elongated receivables cycle and the seasonality in raw material availability. The rating factors in the increase in the debt levels as the company resorted to higher short-term borrowings to meet the increased working capital and capital expenditure (capex) requirements. The working capital borrowings increased to Rs. 238.2 crore as on March 31, 2021 from Rs. 142.9 crore as on

March 31, 2020 owing to the increase in the scale of operations. The utilisation of working capital limits remained high at ~88% for the 12-month period ended July 2021.

ICRA notes that the Group has availed additional bank limits of Rs. 50.0 crore in the form of commodity finance and expects further enhancement of ~Rs 75.0 crore in its working capital limits for meeting the peak season requirements. This is expected to improve the liquidity buffer of the group in the near term. VHPL's ability to efficiently utilise the new facilities will remain a key monitorable for the healthy scale-up of operations.

The rating notes the stiff competition from other players in the herbal extracts and coffee curing segments and the limited value addition in the coffee curing operations, which restricts the operating margins to some extent. The rating considers the susceptibility of VHPL's earning to foreign exchange fluctuation risk to the extent of unhedged exposures. The rating also considers the susceptibility of raw material availability under the coffee curing operations to fluctuations in agro-climatic conditions.

The revision in outlook reflects the expected improvement in liquidity buffer of the group. Going forward, the incremental working capital limits are expected to support the liquidity position of the group while maintaining business growth and profitability. VHPL's ability to efficiently manage its inventory as well as receivables and ease its working capital intensity will remain a key rating monitorable going forward.

ICRA has withdrawn the short-term rating outstanding, at the request of the company and in line with its policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Long-standing presence with diversified revenue stream and established 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 the requisite herbs. The strong experience of the promoter helps the company manage its business risks effectively. VHPL diversified its presence into the coffee exports 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.

Reputed clientele and established customer association – The Group's renowned 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 long experience in the industry, ensures repeat orders and aids revenue stability. With exports constituting ~95% of its revenue, 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 such as Nespresso and Lavazza, which shall drive revenue growth in the medium term.

Favourable business prospects provide revenue visibility – The Group's revenue visibility remains positive, 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, are expected to improve the company's coffee exports in the near term. Besides, the recent commencement of operations at its newly setup oleoresin extraction unit and the instant coffee plant is likely to support its revenue growth in the near term.

Credit challenges

High working capital intensive nature of operations – The Group's operations are highly working capital intensive as reflected in net working capital/operating income (NWC/OI) of ~58-66% in the past two years, primarily because of the elongated receivables position and the higher inventory holding (due to seasonality of operations). Going forward, short-term borrowings are expected to be at higher levels to meet the increased scale of operations (with the commencement of operations at the oleoresin and instant coffee plants). The Group has availed Rs. 50.0 crore of commodity finance and expects further enhancement of ~Rs 75.0 crore for meeting the peak season requirements. The Group's ability to ease its working capital intensity and utilisation levels 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. As it is an export-oriented unit, its earnings are exposed to foreign exchange fluctuation risk to the extent of unhedged exposures. The slower-than-expected ramp-up of operations at the newly commenced oleoresin unit or the instant coffee facility may also exert pressure on the Group's profitability.

Stiff competition from other established players limits pricing flexibility – The Group faces stiff competition from other players in the herbal segment as well as the coffee segment, which limits its pricing flexibility. Further, the limited value addition and minimal product differentiation in the coffee curing operations restrict its operating margins to some extent.

Liquidity position: Adequate

VHPL's liquidity position is **adequate,** characterised by expected improvement in liquidity buffer by way of enhancement in working capital facilities. Average utilisation of the working capital facility was high at ~88% of the total limits sanctioned for August 2020 to July 2021. However, the company has recently availed an additional facility (commodity finance) of Rs. 50.0 crore and expects further enhancement of working capital limits of ~Rs 75.0 crore for meeting its peak season inventory requirements, which shall add to the liquidity buffer.

In terms of repayment obligations, the Group has repayments of Rs. 14.9 crore p.a. in FY2022 and FY2023. In terms of capex, the Group has planned capex of ~Rs. 120.0 crore in the near term (~Rs. 25.0 crore has already been incurred) for its probiotics and decaffeination plant. The company has availed a term loan of Rs. 60.0 crore for funding its new project on probiotics (repayment shall start from FY2024 with maximum outflow of Rs. 12.0 crore annually). The balance is expected to be funded through internal cash accruals. 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 revenue growth momentum and margins in addition to improving its coverage indicators on a sustained basis. Specific credit metric which could result in a rating upgrade include TD/OPBDITA of less than 2.0 times on a sustained basis.

Negative factors – Negative pressure on VHPL's rating could arise if there is continued increase in working capital intensity or weakening of coverage and return indicators owing to any sizeable debt-funded capital expenditure with the Total outside liabilities/Tangible net worth increasing to more than 1.5 times on a sustained basis.

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 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. Bengaluru-based VHPL is a 100% export-oriented entity with four manufacturing units and a research and development (R&D) centre in Karnataka.

VHPL ventured into the coffee curing business in FY2017; at present, it is setting up an instant coffee production line at Chikmagalur in Karnataka and an oleoresin extraction facility near Khammam in Telangana. 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.

Key financial indicators (audited)

VHPL Consolidated[@]	FY2019	FY2020	FY2021*
Operating Income (Rs. crore)	468.7	348.7	613.5
PAT (Rs. crore)	34.1	28.8	61.3
OPBDIT/OI (%)	14.6%	17.2%	16.6%
PAT/OI (%)	7.3%	8.3%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.2	1.3
Total Debt/OPBDIT (times)	2.0	3.7	3.0
Interest Coverage (times)	8.0	5.1	5.8

[@] *Adjusting inter-group company transactions; * Provisional*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

CRISIL (BBB+/Stable/A2) and Brickwork (BB+/Stable/A4+) ratings have been withdrawn in March and April 2021, respectively.

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 08, 2021	Jan 28, 2021 Nov 17, 2020 Sep 22, 2020	Jul 23, 2019 Apr 02, 2019	--
1	Term Loans	Long Term	115.0	66.0	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	--
2	Export Packing Credit/Cash Credit	Long Term	245.0	--	[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

Annexure-1: Instrument details

ISIN /Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
HDFC Bank	Export Packing Credit*	NA	NA	NA	220.0	[ICRA]A- (Stable)
Axis Bank	Export Packing Credit*	NA	NA	NA	25.0	[ICRA]A- (Stable)
HDFC Bank	Term Loan	FY2018	NA	FY2025	25.0	[ICRA]A- (Stable)
Axis Bank	Term Loan	FY2022	NA	FY2029	60.0	[ICRA]A- (Stable)
Axis Bank	Term Loan	FY2022	NA	FY2026	30.0	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	--	Short term rating [ICRA]A2+ withdrawn

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	VHPL Ownership	Consolidation Approach
Vidya Herbs Pvt. Ltd.	100.00% (rated entity)	Full Consolidation
Manko Natural Flavours and Extracts Private Limited	99.85%	Full Consolidation
Dynadis Biotech India Private Limited	99.85%	Full Consolidation

Source: *VHPL*

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About ICRA Limited:

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