

## Natural Remedies Private Limited

May 29, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	45.0	50.0	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Short-term – Non-fund based	7.0	7.0	[ICRA]A1 Upgraded from [ICRA]A2+
Short-term – Interchangeable	-	(10.0)	[ICRA]A1; Upgraded from [ICRA]A2+
<b>Total</b>	<b>52.0</b>	<b>57.0</b>	

\*Instrument details are provided in Annexure 1

### Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 50.00-crore<sup>1</sup> (enhanced from Rs. 45.00-crore) fund-based facilities of Natural Remedies Private Limited (NRPL) to [ICRA]A (pronounced ICRA A)<sup>2</sup> from [ICRA]A- (pronounced ICRA A minus). The outlook on the long-term rating is Stable. ICRA has also upgraded the short-term rating assigned to the Rs. 7.00-crore non-fund based facilities of the company to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus). ICRA has also upgraded a short-term rating of [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 10.00-crore short-term interchangeable facilities of the company. The Outlook on the long term rating is Stable.

### Rationale

The rating upgrade positively factors in NRPL's healthy revenue growth in FY2018 on the back of significant increase in income from animal healthcare products. This increase was aided by aggressive marketing initiatives and product refinement programme based on market research and customer feedback, which increased the uptake of herbal healthcare products. The ratings favourably factor in the improvement in profitability in FY2018 as a new in-house powdered-product manufacturing facility stepped up efficiency and brought down cost. Moreover, NRPL's focus on high-margin products and strategic procurement of better-quality competitively-priced raw materials positively impacted its profitability during the corresponding period. The ratings continue to factor in the long track record of the company, the extensive experience of the promoters and the company's leading market position in herbal animal healthcare industry. The ratings also take into consideration NRPL's diversified product base across categories; its renowned customer profile; its established relationship with the suppliers; the strong research and development team along with the extensive distribution network in India and overseas. The ratings reflect the company's favourable financial profile, which is characterised by comfortable capital structure and healthy coverage indicators.

<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>2</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

The ratings, however, remain constrained by the working capital-intensive business owing to seasonal availability of raw materials, resulting in high inventory holding requirements. The ratings also take into consideration the price sensitivity of the customers in the domestic animal healthcare segment and the intense competition prevailing in the herbal healthcare segment, which limit NRPL's pricing flexibility to some extent. The ratings continue to factor in the susceptibility of profit margin to fluctuations in foreign exchange as a substantial amount of revenues is derived from export sales. However, the forex exposure has been minimised to some extent through prudent hedging mechanisms adopted by the company on a selective basis. The ratings also factor in the high dependence on Topicure, a dermal care product, which contributed 18.9% to NRPL's operating income in FY2018. Nevertheless, the established market presence of the product, with nearly 60% share in its addressable segment, mitigates the risk to an extent.

## Outlook: Stable

The Stable outlook reflects ICRA's expectation that NRPL will continue to benefit from its proven track record in the herbal healthcare industry, the extensive distribution network in domestic and overseas markets and the established relationship with key customers and suppliers. The outlook may be revised to 'Positive' if NRPL achieves significant revenue growth aided by the marketing initiatives undertaken by the company and/ or improves profitability by undertaking various process improvement measures. The outlook may be revised to 'Negative', in case the quantum of unsecured loans from promoters increases beyond ICRA's expectations and results in a stretched capital structure and coverage indicators. Besides, any increase in the quantum of investments in subsidiaries will also remain crucial from the credit perspective.

## Key rating drivers

### Credit strengths

**Established presence in herbal healthcare industry** – NRPL was incorporated in 1998 and has a long presence in the herbal healthcare industry. The extensive experience of the promoters in the herbal healthcare industry and the proven operational track record have helped the company to forge strong ties with renowned customers and suppliers, and establish an extensive distribution network across India and abroad.

**Healthy improvement in operating income and profitability in FY2018** – NRPL's operating income witnessed a healthy growth of 17.6% in FY2018, as per the provisional financials, aided by various marketing initiatives to improve the brand visibility. Moreover, higher awareness on herbal products has increased customer affinity, thereby facilitating sales. The profitability also improved during the year as the company focused on higher-margin products and the in-house powder product manufacturing facility commenced operations, which provided better efficiency at lower cost. Besides, the healthy revenue growth led to better absorption of fixed overheads, thereby supporting profitability.

**Favourable financial profile** – NRPL's financial profile remains favourable as characterised by comfortable capital structure and healthy coverage indicators. Notwithstanding the increase in debt levels in the form of unsecured loans from promoters and working capital borrowings, the gearing (total debt/tangible net-worth) stood comfortable at 0.6 times as on March 31, 2018. The coverage indicators improved in FY2018, supported by the increase in profit margins during the year.

## Credit challenges

**Working capital intensive operations** – Given the seasonal availability of NRPL’s key raw materials, i.e. herbs, the company procures in bulk during the peak season to limit the raw material non-availability risk and to insulate the profit margins from raw material price escalation during off-season. The high inventory holding requirement results in working capital-intensive operations. However, the strategic procurement of herbs during peak season enables NRPL to source quality raw material at competitive prices, which in turn supports its profitability to an extent.

**Limited pricing flexibility owing to price sensitivity of customers and intense competition** – The products of the company majorly caters to small-scale farmers who are price sensitive, which limits NRPL’s pricing flexibility to an extent. Moreover, the intense competition from other players in the herbal healthcare industry also exerts pressures on NRPL’s pricing flexibility. Nevertheless, the company’s established presence in the herbal healthcare industry along with its proven product efficacy mitigates competitive pressures and helps NRPL to pass on the raw material price increase to some extent.

**Susceptibility of margins to fluctuation in foreign exchange** – NRPL derives nearly 30% of its revenues from exports and United States is its major export destination. Hence, the company’s profit margin is exposed to foreign exchange fluctuation risk. Nevertheless, the hedging mechanism adopted by the company on a selective basis mitigates the risk to some extent.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in Pharmaceutical Industry](#)

## About the company

Natural Remedies Private Limited, incorporated in 1998, is a manufacturer of herbal veterinary healthcare products, human healthcare products, standardised herbal extracts and phyto-chemicals. NRPL, headquartered in Bangalore, Karnataka, has two units—one in Thally, Tamil Nadu, where herbal healthcare products are manufactured, and the second one in Bangalore, where human healthcare products are processed and packaged. NRPL also undertakes manufacturing of animal healthcare products and a small portion of human healthcare products on a job-work basis. Most of the products, especially in animal healthcare products (AHP) category, are sold under the company’s own brands in the domestic market; the oldest brand, Himalayan Batisa, has been active since the last 50 years. NRPL has its own research and development unit and its sales and distribution network is spread across the country with 400 sales professionals, 20 clearing and forwarding agents, 2,200 distributors and 25,000 retailers.

## Key financial indicators

	FY2017	FY2018*
Operating Income (Rs. crore)	197.3	231.9
PAT (Rs. crore)	11.8	18.9
OPBDIT/ OI (%)	10.9%	15.7%
RoCE (%)	14.9%	20.7%
Total Debt/ TNW (times)	0.5	0.6
Total Debt/ OPBDIT (times)	2.2	1.8
Interest Coverage (times)	5.5	6.6
NWC/ OI (%)	28.8%	32.0%

*\*Provisional financials*

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

**Any other information: None**

**Rating history for last three years:**

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019 May 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 May 2016	Date & Rating in FY2016 July 2015
Cash credit	Long-term	50.0		[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
Letter of credit	Short-term	3.5		[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
Bank Guarantee	Short-term	2.5		[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
Forward contract	Short-term	1.0		[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
Interchangeable	Short-term	(10.0)		[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	50.0	[ICRA]A (Stable)
NA	Letter of credit	-	-	-	3.5	[ICRA]A1
NA	Bank Guarantee	-	-	-	2.5	[ICRA]A1
NA	Forward contract	-	-	-	1.0	[ICRA]A1
NA	Interchangeable	-	-	-	(10.0)	[ICRA]A1

*Source: Natural Remedies Private Limited*

## ANALYST CONTACTS

**Ravichandran K**

+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Ritika Periwal**

+91 80 49225562  
[ritika.mundhra@icraindia.com](mailto:ritika.mundhra@icraindia.com)

**Srinivasan R**

+91 44 4596 4315  
[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Vinodhini M**

+91 44 4297 4313  
[vinodhini.m@icraindia.com](mailto:vinodhini.m@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 6606 9999

© Copyright, 2018 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](http://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