

Vidya Herbs Pvt. Ltd.

April 02, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	27.50	64.50	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Stable)
Long Term – Fund-based Facilities	44.00	65.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Stable)
Long Term / Short Term – Unallocated Limits	0.96	3.96	[ICRA]A- (Stable)/ [ICRA]A2+; Upgraded from [ICRA]BBB+(Stable)/ [ICRA]A2
Short Term – Non-fund Based Facilities	9.00	-	-
Total	81.46	133.46	

*Instrument details are provided in Annexure-1.

Rationale

The upgrade in ratings takes into account VHPL's steady growth in revenues in FY2018 and the current fiscal aided by healthy pick up in export volumes in the coffee curing as well as herbal extracts segment, and strong revenue growth prospects over the medium term with expected commencement of instant coffee and oleoresin extraction units in FY2020 and FY2021 respectively. The rating factors in the company's healthy financial profile, reflected by comfortable capital structure and coverage indicators, supported by sustained growth in revenues, stable profit margins and healthy accruals over the years. The ratings draw comfort from VHPL's established market position in herbal extract industry with a diversified product portfolio, and its reputation as one of the top coffee exporters from India in its third year of coffee processing business. Strong association with its reputed clientele and established Research & Development (R&D) setup support VHPL's long-term business sustainability and growth prospects.

The ratings, however, remain constrained by VHPL's high working capital intensive nature of operations due to stretched receivables and seasonality in procurement of raw materials as evidenced by the high utilisation of its working capital limits. The ratings factor in the stiff competition from other players in the herbal extracts segment and limited value addition in the coffee curing operations, which restrict its operating margins to an extent. VHPL's profitability continues to remain susceptible to adverse fluctuations in the raw material prices and production scenario of coffee in the international market. Being an exported-oriented entity, VHPL is exposed to foreign exchange rate fluctuation risks. However, natural hedge with borrowings in foreign currency and partial hedging through forward contracts mitigate the risks to a large extent. Going forward, successful commissioning of the instant coffee and oleoresin extraction facilities and the company's ability to develop stable customer relationships for the coffee business would be the key rating sensitivities.

Outlook: Stable

ICRA believes VHPL will continue to benefit from the extensive experience of its promoters and the established market position of the company in herbal extract and coffee processing business. The outlook may be revised to Positive if there is a sustained improvement in the operating income and the profitability indicators in both the herbal extract and coffee processing segments from the current levels. Conversely, the outlook may be revised to 'Negative' if any significant debt-funded capex, higher exposure to group entities, or stretch in the working capital cycle leads to the weakening of the financial risk profile.

Key rating drivers

Credit strengths

Longstanding presence and established market position in herbal extract and processed coffee segments – VHPL is engaged in manufacturing herbal extracts for over a decade and has substantial market knowledge and well-developed supply chain for procurement of requisite herbs. The strong experience of the promoters aids the company in managing its business risks effectively. VHPL's processed coffee exporting business, started in FY2017, has grown to become one of the top-10 coffee exporters in India in its third year of operations. VHPL has a widespread sales and distribution network with marketing set-ups abroad and representative across USA, Europe, Japan, Korea, Russia, among others.

Revenue growth expected to be healthy over the medium term; favourable financial risk-profile – Although VHPL is likely to witness a moderate revenue growth in FY2019 due to decline in sales realisations in both herbal extracts and processed coffee segments, ICRA expects VHPL's revenues to grow at a healthy pace over the medium term. The growth in revenues is expected to be supported by increase in sales volumes in the herbal extract and coffee processing segments and expected commencement of the instant coffee line and new oleoresin extraction unit in the next 12 months. Over the past several years, VHPL has maintained strong credit metrics aided by healthy cash flow generation and favourable finance costs, which has supported its capital structure and coverage indicators.

Diversified product portfolio of herbal extracts; established R&D setup aids in steady introduction of new and upgraded products – The sale of turmeric extract (curcumin) and green coffee bean extract constituted ~60% of VHPL's revenues from herbal segment in FY2018. However, it has presence across a diversified product portfolio including extracts of over 100 products. VHPL's R&D centre is well equipped to maintain world-class standards of health and safety, enabling steady development of niche and innovative products. VHPL, in FY2019 has acquired two patents for its amorphophallus konjac and green tea extracts, used in the treatment of skin conditions and obesity, respectively.

Reputed client base and favourable demand outlook for herbal healthcare products support growth prospects – Supported by strong experience in herbal extracts, VHPL has witnessed repeat orders from its reputed customers. The company's strong customer profile provides comfort with respect to business prospects and counter party risks. With exports constituting around 95% of its revenue, the company has established presence in USA and Europe which are large markets for nutraceuticals.

Credit challenges

Working capital intensive nature of operations – VHPL's operations remain highly working capital intensive as reflected NWC/OI of ~29% as on March 31, 2018, primarily on account of high receivables resulting in high utilisation of the working capital facilities. With the commencement of the coffee curing business, although the overall debtor days have declined in the last two fiscals on account of faster realisation from this division, upfront payment to its suppliers and higher inventory holding due to seasonality in procurement of coffee cherries result in high working capital requirements.

Strong competition from other established players limits pricing flexibility – VHPL faces stiff competition from other players in the herbal segment as well as pharmaceutical segment which limits the pricing flexibility. Additionally, limited value addition and minimal product differentiation in the coffee curing operations, restrict its operating margins to an extent.

Margins remain susceptible to adverse fluctuations in the raw material prices – VHPL's raw materials primarily include agro-based commodities like various herbs and coffee cherries, the prices of which remain susceptible to risk of seasonal factors as well as agro-climatic factors. Consequently, any adverse production scenario or any sharp fluctuations in the prices of these agro-commodities would impact VHPL's capacity utilisation, profitability and in turn its cash accruals. The

company, however, covers its purchases through immediate sales to its customers, thereby reducing the inventory valuation and price risks to a large extent.

Liquidity Position

VHPL's liquidity position remains moderate with significant capex towards setting up of instant coffee unit and addition of machinery and equipment at its existing facilities, coupled with increased working capital requirements, which resulted in negative free cash flows in FY2018 and the current fiscal. Its fund-based working capital utilisation remained moderately high at 81% of the sanctioned limits during the last 14-months period ending January, 2019. Notwithstanding a substantial capex outgo in near term primarily towards oleoresin extraction unit, and sizeable debt repayment obligations, VHPL's liquidity position is likely to remain adequate, supported by the recent enhancement in its working capital limits, fresh term loan sanction of Rs. 30.0 crore and expected growth in cash accruals.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

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 processed food and cosmetics industry for enhanced flavour, fragrance, colour & odour preservation, perfumery and aroma therapy. Key products in the herbal extracts segment include extracts of green coffee, turmeric, saw palmetto, coleus, bilberry, acerola, etc. VHPL is a 100% export-oriented entity located in Bangalore with four manufacturing units and an R&D centre in Karnataka. In FY2017, VHPL ventured into coffee curing business, and is currently 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 & Extracts Pvt. Ltd. and Dynadis Biotech India Pvt. Ltd. in FY2014 and FY2015 respectively. While the former manufactures spice extracts, primarily turmeric, the latter produces colouring agents.

Key financial indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	228.1	387.5
PAT (Rs. crore)	12.3	23.9
OPBDIT/ OI (%)	10.4%	9.7%
RoCE (%)	18.9%	25.0%
Total Debt/ TNW (times)	68.8	111.6
Total Debt/ OPBDIT (times)	2.1	2.3
Interest coverage (times)	5.0	8.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jan 31, 2019 (Rs crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					Apr 2019	Feb 2018	-
1 Term Loan	Long Term	64.50	23.2	[ICRA]A-(Stable)	-	[ICRA]BBB+(Stable)	-
2 Fund-based Facilities	Long Term	65.00	-	[ICRA]A-(Stable)	-	[ICRA]BBB+(Stable)	-
3 Unallocated Limits	Long Term/Short Term	3.96	-	[ICRA]A-(Stable)/[ICRA]A2+	-	[ICRA]BBB+(Stable)/[ICRA]A2	-
4 Non-fund Based Facilities	Short Term	-	-	-	-	[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

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	Term Loan 1	FY2017	NA	FY2021	21.50	[ICRA]A- (Stable)
NA	Term Loan 2	FY2018	NA	FY2023	13.00	[ICRA]A- (Stable)
NA	Term Loan 3	FY2019	NA	FY2025	30.00	[ICRA]A- (Stable)
NA	Working Capital Facilities	NA	NA	NA	65.00	[ICRA]A- (Stable)
NA	Unallocated Limits	NA	NA	NA	3.96	[ICRA]A- (Stable)/ [ICRA]A2+

Source: VHPL

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