

September 17, 2019

Neeru Menthol Private Limited: Ratings upgraded, Issuer rating put on notice of withdrawal

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based	37.28	56.28	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Non-fund Based	19.94	27.94	[ICRA]A3; upgraded from [ICRA]A4+
Unallocated	27.78	0.78	[ICRA]BBB- (Stable)/A3; upgraded from [ICRA]BB+ (Stable)/A4+
Issuer Rating	-	-	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable), put on notice of withdrawal
Total	85.00	85.00	

*Instrument details are provided in Annexure-1

Rationale

The rating revision factors in the 114% surge in Neeru Menthol Private Limited's (NMPL) operating income (OI) and increase in the profitability margins in FY2019 (provisional). The revenues and volume growth are supported by the increasing demand of menthol-based products and dihydromyrcenol in the domestic and export markets on account of its diversified use. The rise in the production capacity has also supported the increase in OI. The improvement in profitability was driven by the sharp increase in the sales price of dihydromyrcenol. However, there has been a decline in the selling price of dihydromyrcenol in the current fiscal, which will impact profitability.

The rating continues to draw comfort from the significant experience of the management in the menthol industry, which has helped the company in getting repeat orders and improving its scale of operations over the past few years. The demand has also been boosted by the low supply of synthetic menthol from BASF, Germany as well as increasing awareness regarding the use of organic products. Moreover, going forward the company is likely to benefit from the operational synergies expected from the integration of the two manufacturing units. ICRA has also taken note of the locational advantage of the manufacturing units owing to the proximity to raw material sources.

However, the ratings remain constrained by the company's modest operating profit margin (OPM) in the past in an intensely competitive industry, which is subject to fluctuations in raw material process as well as foreign exchange rates. Further, BASF is expected to restart the production of synthetic menthol in the current fiscal, which might adversely impact the demand of natural menthol in the near-term due to the low-price synthetic menthol compared with natural menthol. Moreover, the ratings remain subdued because of NMPL's modest net worth base.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that NMPL will continue to benefit from the extensive experience of its promoters and its established track record in the menthol and dihydromyrcenol industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established track record in menthol industry - The current promoters have been involved in the menthol business for more than four decades. The previous generation of promoters established Neeru Enterprises (NE) in 1978.

Established relations with reputed customers from diversified industries - The company manufactures menthol-based products and dihydromyrcenol for various domestic and international brands. NMPL's clientele includes reputed names from cosmetics, pharmaceuticals and food processing industries. Its major customers are DRT (France), International Flavors & Fragrances Inc. (USA), Emami Limited, Tien Yuan Chemicals Pte Ltd. (Singapore), Lluch Essence SL (Spain).

Increasing demand of menthol-based products and dihydromyrcenol - The demand of natural menthol-based products has been increasing due to the shift in taste towards organic products and rising disposable income. The shortage in supply of synthetic menthol from BASF has also fuelled the demand of natural menthol in the last two-three years. In addition, the demand of dihydromyrcenol has been increasing due to its diversified use. Both the products find application in several industries including pharmaceuticals, food, oral care, flavouring, fragrances, cosmetics, paint, etc.

Credit challenges

Intensely competitive industry limits pricing power - The menthol and dihydromyrcenol industry is intensely competitive due to the presence of various small and a few large companies. This limits pricing power and keeps profitability under check. Any major increase in the supply of synthetic menthol from BASF or decline in prices of dihydromyrcenol might adversely impact revenues and profitability in the current year.

Exposure to foreign currency - NMPL garnered ~50% of the total revenue from the export market. In the absence of a full hedging mechanism, any unfavourable changes in currency exchange rate might impact its profitability.

Threat of substitution by synthetic menthol - Given that the cost of synthetic menthol is lower and it is available with organised large players that also supply other chemicals to clients, synthetic menthol has found acceptance among the erstwhile users of natural menthol. While synthetic menthol capacities are expected to increase going forward, rising demand for menthol products is expected to absorb part of the rising capacity, softening the impact on natural menthol demand.

Liquidity position: Adequate

NMPL's liquidity is **Adequate** as it has sufficient unutilised working capital limits and low repayment of term debt.

Rating sensitivities

Positive trigger: ICRA may upgrade the rating if NMPL is able to report higher sales and operating profit margin compared to the past trend and better manage working capital parameters on a sustained basis. However, the other key operational and financial parameters will also be analysed.

Negative trigger: ICRA may downgrade the rating if the company's OPM deteriorates to lower than the past trends or any major deterioration in working capital parameters.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of NMPL and Neeru Enterprises (NE) till FY2018; NMPL took over the business of NE w.e.f April 1, 2018.

About the company

Mr. Vishnu Kapoor and his family have been manufacturing and exporting menthol crystal, de-mentha oil, dihydromyrcenol and other essential oils for more than 35 years. The promoters had two different manufacturing facilities – NE and NMPL – in similar lines of business. NE, the older entity, was established in 1978. NMPL, which was incorporated in 2015 to expand the family business, started operations in FY2019. The promoters decided to merge both manufacturing facilities as NMPL took over the business of NE to consolidate the family-run business. The entire business is running under the new entity, NMPL, since April 1, 2018. The company's manufacturing facility is located in Rampur, Uttar Pradesh, which is known for mentha-based industry due to the easy availability of the raw material in districts like Bareilly, Chandausi, Rampur Sambhal, etc.

Key financial indicators (Audited/Provisional)

	FY2018#	FY2019 (provisional)
Operating Income (Rs. crore)	293.58	628.71
PAT (Rs. crore)	7.90	35.72
OPBDIT/ OI (%)	3.07	8.95
RoCE (%)	18.12	74.90
Total Outside Liabilities/Tangible Net Worth (times)	7.03	3.40
Total Debt/ OPBDITA (times)	6.49	0.70
Interest Coverage (times)	3.54	14.88
DSCR	4.21	11.02

Source: Company data, #consolidated financial of NMPL and NE

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 (Rs. crore)	Date & Rating September 17, 2019	Date & Rating in	Date & Rating in	Date & Rating in	
					FY2019	FY2019	FY2018	
1	Cash Credit	2.00	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-	
2	Foreign Bill Purchase	26.00	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-	
3	Packing Credit	22.40	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-	
4	Stand by Line of Credit	5.88	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-	
5	Letter of Credit	25.00	-	[ICRA]A3	[ICRA]A4+	-	-	
6	Forward Contract	2.94	-	[ICRA]A3	[ICRA]A4+	-	-	
7	Unallocated	0.78	-	[ICRA]BBB-(Stable)/A3	[ICRA]BB+(Stable)/A4+	-	-	
8	Issuer Rating	-	-	[ICRA]BBB-(Stable)*	[ICRA]BB+(Stable)	-	-	

*put on notice of withdrawal for one month

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	Cash Credit	-	-	-	2.00	[ICRA]BBB- (Stable)
NA	Foreign Bill Purchase	-	-	-	26.00	[ICRA]BBB- (Stable)
NA	Packing Credit	-	-	-	22.40	[ICRA]BBB- (Stable)
NA	Stand by Line of Credit	-	-	-	5.88	[ICRA]BBB- (Stable)
NA	Letter of Credit	-	-	-	25.00	[ICRA]A3
NA	Forward Contract	-	-	-	2.94	[ICRA]A3
NA	Unallocated	-	-	-	0.78	[ICRA]BBB- (Stable)/A3
NA	Issuer Rating	-	-	-	-	[ICRA]BBB- (Stable)*

Source: NMPL, *put on notice of withdrawal for one month

Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
Neeru Menthol Private Limited	NA	Full consolidation
Neeru Enterprises	NA	Full consolidation

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