

September 15, 2014

Facility	Amount (Rs. Crore)	Rating
Term Loan (proposed)	10.00	SMERA BBB-/Stable (Assigned)

SMERA has assigned a rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) to the Rs.10.00 crore proposed bank facility of V S International Private Limited (VSIPL). The outlook is '**Stable**'. The rating derives support from the company's healthy profit margins, strong financial risk profile, comfortable liquidity position and experienced management. However, the rating is constrained by the company's moderate operating scale and geographically concentrated operations in a highly competitive segment of the pharmaceutical industry. The rating is further constrained by the susceptibility of the company's profit margins to foreign exchange fluctuation risk.

VSIPL, incorporated in 1997, is a Mumbai-based company engaged in manufacturing and export of pharmaceutical drug formulations through loan licence and third-party agreements. VSIPL reported healthy operating profit margin of 6.96 per cent (provisional) and net profit margin of 3.51 per cent (provisional) in FY2013-14 (refers to financial year, April 01 to March 31). The company's strong financial risk profile is reflected in gearing (debt-equity ratio) of 0.50 times (provisional) as on March 31, 2014 and interest coverage ratio of 5.44 times (provisional) in FY2013-14. Moreover, VSIPL's total debt of Rs.5.19 crore (provisional figure as on March 31, 2014) includes interest-free unsecured loans of Rs.2.42 crore.

VSIPL's comfortable liquidity position is evidenced by low utilisation (60 per cent) of export packing credit limit during February 2014 to July 2014. Moreover, the company has adequate fixed deposits as on July 31, 2014. VSIPL benefits from its experienced management. Mr. Vidyut Shah, director of VSIPL, has around two decades of experience in the pharmaceutical industry.

VSIPL's moderate operating scale is reflected in total operating income of Rs.81.86 crore (provisional figure including income of Rs.33.00 crore from turnkey project) in FY2013-14. The company operates in a highly competitive segment of the pharmaceutical industry. VSIPL is exposed to geographical concentration risk arising from high dependence on customers based in Nigeria, South Africa and Ghana. VSIPL is also exposed to foreign exchange fluctuation risk, which is partially offset by the company's policy of following a quarterly schedule of orders and undertaking hedging on selected transactions.

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Rating sensitivity factors

- Higher-than-expected increase in debt-funded capital expenditure.
- Significant change in liquidity position.

Outlook: Stable

SMERA believes VSIPL will continue to benefit over the medium term from its established operations and experienced management. The outlook may be revised to 'Positive' in case the company scales up its operations while maintaining healthy profit margins. The outlook may be revised to 'Negative' in case of decline in the company's revenues, or in case of sharp deterioration in the company's profit margins or liquidity position.

About the company

VSIPL, incorporated in 1997, is a Mumbai-based company promoted by Mr. Vidyut Shah, Mrs. Susie Shah and Mr. Purvesh Shah. VSIPL is engaged in manufacturing (through loan licence and third-party agreements) of pharmaceutical drug formulations. The company's product portfolio includes formulations for antibiotics, antiviral, cardiovascular, neuropsychiatry, oncology, gastroenterology, pain management, diabetology and other specialties. VSIPL is also engaged in trading of medical equipment and hospital furniture items, which are sold under the brand name of 'Mediwise'. Further, the company undertakes turnkey projects for setting up pharmaceutical machinery and equipment.

VSIPL is in the process of acquiring a factory unit for manufacturing drug formulations in Daman. The total project cost is ~Rs.14.00 crore, which will be funded through a mix of term loan and internal accruals. The aforementioned factory unit has an installed production capacity of 48 crore tablets and 10 crore capsules per annum. VSIPL initially plans to manufacture 40–50 formulations at the Daman factory unit, wherein the company will also undertake contract manufacturing for large players. VSIPL is likely to commence contract manufacturing operations at the Daman factory unit in September 2014.

For FY2012–13, VSIPL reported profit after tax (PAT) of Rs.0.85 crore on total operating income of Rs.25.18 crore, as compared with PAT of Rs.0.87 crore on total operating income of Rs.25.27 crore for FY2011–12. For FY2013–14 (as per provisional financial statements), the company registered PAT of Rs.2.88 crore on revenues of Rs.81.86 crore (provisional figure including income of Rs.33.00 crore from turnkey project). VSIPL has registered revenues of ~Rs.9.00 crore during the period April 2014 to June 2014.

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