

May 10, 2016

Facilities	Amount (Rs. Crore)	Rating
Term Loan	5.00	SMERA BB+/Stable (Suspension Revoked, Rating Assigned)
Term Loan (proposed)	1.15	SMERA BB+/Stable (Suspension Revoked, Rating Assigned)

SMERA has revoked the suspension of the ratings on the bank facilities of V S International Private Limited (VSIPL) and assigned a rating of '**SMERA BB+**' (**read as SMERA double B plus**) to the Rs.6.15 crore bank facilities. The outlook is '**Stable**'. SMERA had, on December 14, 2015 suspended the rating in the absence of requisite information from VSIPL. The firm has now shared the required information, enabling SMERA to assign a rating.

The rating derives support from the company's long operational track record, experienced management and healthy financial risk profile. However, the rating is constrained by the company's modest scale of operations and geographical concentration risk 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 the manufacturing and export of pharmaceutical drug formulations through loan licence and third-party agreements. VSIPL reported healthy operating profit margin of 14.75 per cent (provisional) in FY201516 (refers to financial year, April 01 to March 31) as compared to 10.62 per cent in FY2014-15. The company's healthy financial risk profile is reflected in the gearing (debt-equity ratio) of 0.92 times (provisional) as on March 31, 2016 as against 0.67 times as on March 31, 2015 and interest coverage ratio of 4.32 times (provisional) in FY201516 as against 3.40 times in FY2014-15.

VSIPL benefits from its experienced management. Mr. Vidyut Shah, Director, has around two decades of experience in the pharmaceutical industry.

VSIPL has modest scale of operations with total operating income of Rs.21.97 crore (provisional) in FY2015-16 as against Rs.23.67 crore in FY2014-15. 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 (accounts for ~43 per cent in total sales), Malaysia and Myanmar. 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

- Improvement in scale of operations and profitability
- Higher than envisaged debt funded capex
- Deterioration in capital structure
- Working capital management

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, sharp deterioration in the profit margins or financial risk profile owing to higher than envisaged debt funded capex. A stretched liquidity position may also entail a 'Negative' outlook.

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 the manufacture (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.

For FY2014-15, VSIPL reported profit after tax (PAT) of Rs.0.67 crore on total operating income of Rs.23.67 crore, as compared with PAT of Rs.3.28 crore on total operating income of Rs.81.61 crore for FY2013-14. For FY2015-16 (as per provisional financial statements), the company registered PAT of Rs.0.13 crore on revenues of Rs.21.97 crore.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Suman M National Sales Head – Emerging Corporate Group Tel: +91-22-6714 1151 Cell: +91 9892306888 Email: suman.m@smera.in Web: www.smera.in	Pooja Ghosh Associate Vice President – Corporate Ratings Tel: +91-33-6620 1203 Email: pooja.ghosh@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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