

Press Release

V S International Private Limited

November 21, 2019



Rating Reaffirmed, Outlook Revised

Total Bank Facilities Rated*	Rs. 8.45 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 8.45 crore bank facilities of V S INTERNATIONAL LIMITED (VSPL). The outlook is revised to '**Negative**' from '**Stable**'.

The revision in the outlook is on account of intermittent instances of overdue in bank credit lines of the company. Acuité believes that the company's rating may be downgraded if the liquidity position further deteriorates. However, the rating draws comfort from the comfortable debt protection indicators and coverage indicators of the company.

VSPL, incorporated in 1997, is a Mumbai-based company promoted by Mr. Vidyut Shah, Mrs. Susie Shah and Mr. Purvesh Shah. VSPL is engaged in manufacturing of pharmaceutical drug formulations. The company's product portfolio includes formulations for antibiotics, antiviral, cardiovascular, neuropsychiatry, oncology, gastroenterology, pain management, diabetology and other specialties. VSPL is also engaged in trading of medical equipment and hospital furniture items, which are sold under the brand name of 'Mediwise'.

VSPL has manufacturing facility located in Daman with capacity of 300 million capsules per annum and 300 crore of tablets per annum. VSPL manufactures Asthalin for Cipla and Rantac for JB Chemicals and Pharmaceuticals Limited. VSPL exports its products to countries like Nigeria, Malaysia, Ghana, Myanmar, UAE, South Africa, Singapore, Philippines, Sri Lanka and Mauritius to name a few. VSPL has developed more than 70 CTD (Common Technical Document) dossiers for the above formulations and has filed 150 dossiers for registration in 9 countries.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of VSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The promoter of VSPL, Mr. Vidyut Shah has more than two decades of experience in the pharma industry. VSPL has established healthy customer relationship with Cipla Limited, Serdia Pharmaceuticals India Pvt Ltd and JB Chemicals and Pharmaceuticals Limited. Acuité believes that established track record of operations for more than two decades and experienced management will help VSPL to maintain its business profile over the medium term.

- **Moderate financial risk profile**

The financial risk profile of VSPL is moderate, marked by moderate networth, moderate gearing and above average debt protection metrics.

VSPL's tangible networth is moderate at around Rs. 13.19 crore as on March 31, 2019 (Provisional) as against Rs. 12.02 crore as on 31 March 2018. The company has followed a conservative financial policy in the past, the same is reflected through regular infusion of unsecured loans to support working capital requirements and its peak gearing levels of 1.17 as on 31 March 2019 (Provisional) and total outside liabilities to tangible networth (TOL/TNW) of 1.78 times as on March 31, 2019 (Provisional). The company incurred capex of Rs.5.98 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period has been around Rs. 1.55 crore to support

the increase in scale of operations. The company's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs. 4.2 to 5.9 crores which are comfortable to service its repayment obligations while supporting majority of the routine capex and incremental working capital requirements. As a result, the gearing is expected to be moderate at around ~1 time as on March 31, 2021 on back of healthy accretion to reserves. The NCA/TD and interest coverage ratio for FY 2019 stood at 0.22 times and 3.3 times, respectively. Acuité believes the financial risk profile of the company will remain moderate on account of moderate net cash accruals and in absence of any major debt funded capex.

Weaknesses

- **Moderate scale of operations and uneven profitability**

VSIPL has shown moderate growth in revenue during the period FY2017 to FY2019 under the study. The operating income stood at Rs. 40.76 crore in FY2019 (Provisional) as compared to Rs.31.28 crore in FY2018. Further, the company has booked revenue of Rs.10.00 crore for the period April to September, 2019. The profitability margins slightly declined to 13.13 percent in FY2019 (Provisional) as against 14.05 percent in FY2018. Acuité believes that the ability of the company to scale up its operations while maintaining profitability margins will be key rating sensitivity.

- **Working capital intensive nature of operations**

VSPL has recorded improvement in working capital cycle marked by GCA days of 156 days in FY2019 (Provisional) as against 199 days in FY2018. The receivables period reduced to 68 days in FY2019 (Provisional) as against 87 days in FY2018. Inventory days also decreased to 52 days in FY2019 (Provisional) as compared to 72 days in FY2018. The working capital limit in the company is utilized at more than 90 per cent on an average for the last six months ended October 2019.

Rating Sensitivities

- Further stretch in liquidity
- Sustaining growth in revenue while maintaining margins

Material Covenants

None

Liquidity position: Stretched

VSPL has stretched liquidity marked by high utilization of bank lines. VSPL's operations are working capital intensive leading to high reliance on working capital borrowings, the cash credit limit in the company remains utilized at more than 90 percent during the last six months period ended October 2019. The GCA days stood high at 156 times for FY2019 (Provisional) as against 199 times in the previous year. The company generated cash accruals of Rs. 2.7 to 3.8 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.08 to Rs. 0.30 crore for the same period. The cash accruals of the company are estimated to remain around Rs. 4.2 to 5.9 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 0.6 crore per annum. The company maintains unencumbered cash and bank balances of Rs. 1.5 crore as on March 31, 2019 (Provisional). The current ratio of the group stands moderate at 1.26 times as on March 31, 2019 (Provisional).

Outlook: Negative

The outlook is revised to 'Negative' as the credit profile is expected to be impacted by intermittent instances of overdue in servicing the working capital facilities with the bank. The rating may be downgraded in case of re-occurrence of such irregularities and continued moderation in liquidity profile and its profitability margins, higher than expected debt funded capex leading to further deterioration in debt protection indicators. Conversely the outlook may be revised to 'Stable' if the company is able to demonstrate significantly ramp up its scale of operations and in turn its cash accruals, or if the promoters infuse additional funds to support the incremental working capital requirements.

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	40.76	31.28	25.84
EBITDA	Rs. Cr.	5.35	4.40	3.44
PAT	Rs. Cr.	1.16	0.44	0.22
EBITDA Margin	(%)	13.13	14.05	13.31
PAT Margin	(%)	2.84	1.40	0.84
ROCE	(%)	10.96	7.88	6.74
Total Debt/Tangible Net Worth	Times	1.17	1.27	1.22
PBDIT/Interest	Times	3.26	3.04	3.18
Total Debt/PBDIT	Times	2.88	3.45	3.43
Gross Current Assets (Days)	Days	156	199	176

Status of non-cooperation with previous CRA (if applicable)

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Sep-2018	Term Loan I	Long Term	6.15	ACUITE BB+/Stable (Reaffirmed)
	Term Loan I	Long Term	2.30	ACUITE BB+/Stable (Assigned)
26-Sep-2017	Term Loan	Long Term	5.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.15	ACUITE BB+/Stable (Reaffirmed)
10-May-2016	Term Loan	Long Term	5.00	ACUITE BB+/ Stable (Suspension revoked, Rating assigned)
	Term Loan (Proposed)	Long Term	1.15	ACUITE BB+/ Stable (Suspension revoked, Rating assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan I	Not Applicable	Not Applicable	Not Applicable	6.15	ACUITE BB+ / Negative (Rating reaffirmed, Outlook revised)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE BB+ / Negative (Rating reaffirmed, Outlook revised)

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About Acuité Ratings & Research:

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