December 23, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	52.00	SMERA BBB-/Stable (Assigned)
Cash Credit*	32.00	SMERA BBB-/Stable (Assigned)
Cash Credit (proposed)	10.00	SMERA BBB-/Stable (Assigned)
Standby Line of Credit	5.00	SMERA A3 (Assigned)
Letter of Credit#	30.00	SMERA A3 (Assigned)
Letter of Credit (proposed)	10.00	SMERA A3 (Assigned)

**Includes Export Packing Credit as sublimit to the extent of Rs.9.00 crore and Foreign Bill Discounting as sublimit to the extent of Rs.2.00 crore*
#Includes Bank Guarantee as sublimit to the extent of Rs.7.00 crore

SMERA has assigned ratings of **'SMERA BBB-' (read as SMERA triple B minus)** and **'SMERA A3' (read as SMERA A three)** to the abovementioned bank facilities of Metrochem API Private Limited (MAPL). The outlook is **'Stable'**. The ratings are supported by the company's long track record of operations, experienced management and healthy revenue growth. The ratings are further supported by the company's healthy financial profile. However, the ratings are constrained by the company's working capital-intensive operations. The ratings are also constrained by the company's exposure to product concentration risk. The ratings note that the company's profit margins are susceptible to volatility in raw material prices.

MAPL, incorporated in 2002, is a Hyderabad-based company engaged in manufacturing of active pharmaceutical ingredients (APIs), drug intermediates and pellets. MAPL benefits from its experienced management. Dr. N. Venkateswara Rao, managing director of MAPL, has around three decades of experience in the pharmaceutical industry. MAPL's revenues have grown at a healthy compound annual growth rate (CAGR) of 21 per cent over the last four years.

MAPL's healthy financial profile is marked by gearing (debt-equity ratio) of 0.68 times (as on March 31, 2014), interest coverage ratio of 3.78 times (in FY2013–14) and debt service coverage ratio (DSCR) of 2.21 times (in FY2013–14). The company's healthy profitability is reflected in operating profit margin of 12.39 per cent and net profit margin of 4.69 per cent in FY2013–14. MAPL's net worth increased from Rs.25.20 crore as on March 31, 2010 to Rs.70.42 crore as on March 31, 2014 on the back of equity infusion.

MAPL's operations are working capital-intensive, as evidenced by collection period of 128 days, payables period of 188 days and gross current assets of 218 days in FY2013–14. The company's working capital limits were almost fully utilised during April to October 2014. SMERA believes

MAPL's working capital management may improve in the near term on the back of the expected enhancement in bank limits. Prudent liquidity management and efficient utilisation of bank limits are the key monitorables. MAPL is exposed to product concentration risk arising from high dependence on sales of anti-ulceratives and anti-fungals such as omeprazole, lansoprazole, esomeprazole and itraconazole. The company's profit margins are highly susceptible to volatility in raw material prices.

Outlook: Stable

SMERA believes MAPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its long track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues and profitability, or in case of deterioration in the company's liquidity position. Efficient working capital management is a key rating sensitivity.

About the company

MAPL, incorporated in 2002, is a Hyderabad-based company promoted by Dr. N. Venkateswara Rao, Mrs. N.V.V.R. Vijaya Lakshmi, Mr. N. Surya Prakash Rao and Mrs. N. Hymavathi. MAPL manufactures APIs, drug intermediates and pellets. The company has five manufacturing facilities in Hyderabad. MAPL has USFDA certifications for its bulk drugs and intermediate manufacturing facility (Unit I). The company also has Cofepris certification (from Mexican health authority) for its pellets manufacturing facilities (Unit I and Unit II).

MAPL is undertaking capital expenditure of Rs.100.00 crore for setting up a new manufacturing unit in Vizag. The capex is likely to be funded through a mix of term loan (~Rs.52.00 crore), promoters' funds and internal accruals. The company expects to commission the project by April 2015.

For FY2013–14, MAPL reported profit after tax (PAT) of Rs.10.37 crore on total operating income of Rs.221.09 crore, as compared with PAT of Rs.10.25 crore on total operating income of Rs.204.04 crore in FY2012–13. The company registered PAT of Rs.6.48 crore (provisional) on revenues of Rs.122.98 crore (provisional) during April 2014 to September 2014. MAPL's net worth stood at Rs.70.42 crore as on March 31, 2014, as compared with Rs.55.03 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Antony Jose Vice President – Business Development Tel: +91-22-6714 1191 Email: antony.jose@smera.in Web: www.smera.in	Mr. Ashutosh Satsangi Vice President – Operations Tel: +91-22-6714 1107 Email: ashutosh.satsangi@smera.in	Tel: +91-22-6714 1128 Email: ratingdesk@smera.in