

Press Release

22 November, 2017

Optimus Drugs Private Limited (ODPL)

Rating Assigned and Upgraded



Total Bank Facilities Rated *	Rs. 75.00 cr
Long Term Rating	SMERA A-/ Outlook: Stable (Upgraded from SMERA BBB+/Outlook: Revised to Stable from Positive)
Short Term Rating	SMERA A2+ (Upgraded from SMERA A2)

Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating to '**SMERA A-**' (read as **SMERA A minus**) from '**SMERA BBB+**' (read as SMERA triple B plus) on the Rs.30.72 crore bank facilities and assigned long term rating of '**SMERA A-**' (read as **SMERA A minus**) on the Rs.1.28 crore bank facilities of Optimus Drugs Private Limited (ODPL). SMERA has also upgraded the short term rating on the Rs.18.00 crore bank facilities to '**SMERA A2+**' (read as **SMERA A two plus**) from '**SMERA A2**' (read as SMERA A two) and assigned short term rating of '**SMERA A2+**' (read as **SMERA A two plus**) on the Rs.25.00 crore bank facility. The outlook is revised to '**Stable**' from 'Positive'.

Incorporated in 2003, Optimus Drugs Private Limited (ODPL) is a Hyderabad-based company engaged in the manufacture of bulk drugs and intermediaries at Nalgonda, Telangana. The capacity varies from product-to-product and the average installed capacity is about 150 metrics tonnes per year. The company caters to the domestic and international markets.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

ODPL commenced operations from 2003. The company was promoted by Dr. D. Srinivas Reddy, (M.Sc and Ph. D in Organic Chemistry), and others who have around two decades of experience in the pharmaceutical industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. ODPL has a wide customer base with top six customers accounting for ~43 per cent of sales. SMERA believes that ODPL will continue to benefit from its experienced management and established relations with its customers.

Healthy financial risk profile with improvement in revenues and margins

The financial risk profile is healthy marked by net worth of Rs.64.51 crore as on 31 March, 2017 (Provisional) as compared to Rs.46.10 crore as on 31 March, 2016. The gearing (debt to equity ratio) stood at 0.51 times as on 31 March, 2017 (Provisional) as compared to 0.37 times as on 31 March, 2016. The total debt of Rs.32.97 crore as on 31 March, 2017 consists of Rs.2.14 of term loan and working capital facility of Rs.29.60 crore. The Interest coverage ratio (ICR) stood at 11.54 times for FY2016-17 (Provisional) compared to 6.91 times for FY2015-16. The Debt service coverage ratio (DSCR) stood at 5.42 times for FY2016-17 (Provisional). ODPL has invested ~19 per cent of tangible net worth in its group companies as on 31 March, 2017. The adjusted gearing stood at 0.72 times as on 31 March, 2017

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(Provisional). The Total outside Liabilities to Tangible Net worth (TOL/TNW) stood at 1.27 times as on 31 March, 2017 (Provisional).

The revenue increased from Rs.154.11 crore in FY2014-16 to Rs.265.12 crore in FY2015-16. Further, revenue stood at Rs.321.48 crore in FY2016-17 (Provisional). The EBITDA margin for FY2016-17 (Provisional) stood at 9.00 per cent compared to 6.91 per cent in FY2015-16.

SMERA believes that with repayment of existing debt and impending debt funded capex, gearing and coverage indicators are expected to remain comfortable in the medium term.

Diversified client base

ODPL has a diversified client portfolio with top 10 clients contributing 43.00 per cent of the total revenue - Rs.320.23 crore for FY2016-17 (Provisional) compared to 53.51 per cent of total revenue of Rs.265.12 crore for FY2015-16. Some of the top clients include Glenmark Pharmaceuticals Ltd, Apotex Pharmachem Private Limited and Mylan Laboratories.

Comfortable working capital operations

ODPL has comfortable working capital operations marked by Gross Current Assets (GCA) of 82 days for FY2016-17 (Provisional) compared to 64 for FY2015-16. The marginal increase in GCA is based on increase in inventory days from 23 for FY2015-16 to 34 for FY2016-17 (Provisional). The debtor days stood comfortable at 47 for FY2016-17 (Provisional). Further, the average working capital limit utilisation was ~60 per cent for the last six months ended September, 2017.

Weaknesses

Intense competition

The company is exposed to intense competition from organised and unorganised players in the pharmaceutical industry. However, ODPL has more than a decades experience and has been able to establish itself in the Indian pharmaceutical industry.

Margins susceptible to volatility in raw material prices, foreign exchange fluctuation risk

The margins are susceptible to volatility in raw material (mention the name) prices which have been uneven during the period under study. Raw material accounts for ~79 per cent of the total cost of sales. Thus, significant changes in raw material prices due to import pressure and over supply would have an impact on the margins. Exports account for ~72 per cent of total sales. The company uses forward contracts to hedge its net outstanding exposures which mitigate the risk to an extent.

Regulatory risks in the domestic and export markets

ODPL is exposed to regulatory risk in the domestic as well as overseas (Middle East, African and European countries) markets. However, the same is mitigated to an extent since the company has been dealing with these countries for more than five years.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of ODPL to arrive at the rating.

Outlook: Stable

SMERA believes that ODPL will maintain a stable outlook over the medium term on the back of its experienced management and established presence in the industry. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins, capital structure and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue and profit margins or deterioration in the capital structure or liquidity position owing to significant debt funded capex or working capital borrowings.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), ODPL reported profit after tax (PAT) of Rs.18.55 crore on operating income of Rs.321.48 crore, compared with PAT of Rs.11.23 crore on operating income of Rs.265.12 crore in FY2015-16. The net worth stood at Rs.64.51 crore as on 31 March, 2017 (Provisional) as compared to Rs.46.10 as on 31 March, 2016.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instrument/Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
03-Aug, 16	Cash Credit	Long Term	5.00	SMERA BBB+/ Positive (Upgraded)
	Term Loan	Long Term	1.50	SMERA BBB+/ Positive (Upgraded)
	Cash Credit	Long Term	7.00	SMERA BBB+/ Positive (Assigned)
	Import Letter of Credit	Short Term	5.00	SMERA A2 (Upgraded)
	Forward Contract	Short Term	0.50	SMERA A2 (Upgraded)
	Letter of Credit	Short Term	7.00	SMERA A2 (Assigned)
	Overdraft	Long Term	3.00	SMERA BBB+ / Positive (Upgraded)
	Letter of Credit	Short Term	5.00	SMERA A2 (Withdrawn)
	Shipping Guarantee	Short Term	0.50	SMERA A2

				(Withdrawn)
29-May,15	Cash Credit	Long Term	5.00	SMERA BBB / Stable (Assigned)
	Overdraft	Long Term	3.00	SMERA BBB / Stable (Assigned)
	Term Loan	Long Term	6.06	SMERA BBB / Stable (Assigned)
	Letter of Credit	Short Term	5.00	SMERA A3+ (Assigned)
	Import Letter of Credit	Short Term	5.00	SMERA A3+ (Assigned)
	Shipping Guarantee	Short Term	0.50	SMERA A3+ (Assigned)
	Forward Contract	Short Term	0.50	SMERA A3+ (Assigned)
	Proposed Fund Based Facility	Short Term	0.94	SMERA A3+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	SMERA A- / Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.72	SMERA A- / Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA A- / Stable (Upgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA A2+ (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA A2+ (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA A2+ (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.28	SMERA A- / Stable (Assigned)

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ABOUT SMERA

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