

Press Release

Optimus Drugs Private Limited

January 25, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 75.00 Crore
Long Term Rating	ACUITE A-/Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the Rs. 75.00 crore bank facilities of Optimus Drugs Private Limited (ODPL). The outlook is '**Stable**'.

Incorporated in 2003, ODPL is a Hyderabad-based company engaged in the manufacture of bulk drugs and intermediaries at Dothigudem, Telengana. 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. In November 2018, Unichem Laboratories Limited (ULL) has acquired 19.99 percent stake in ODPL.

Analytical Approach

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

Key Rating Drivers

Strengths

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

ODPL (erstwhile Surya Kiran Laboratories Pvt. Ltd) commenced operations from 2003. The company is promoted by Dr. D. Srinivasa Reddy (M.Sc. and Ph. D in Organic Chemistry) has around two decades of experience in pharmaceutical industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. ODPL has a vast customer base with the top six customers accounting for ~43 percent of total sales. Acuité believes that ODPL will continue to benefit from its experienced management and established relationship with its customers, further, the company is expected to benefit from its alliance with Unichem Laboratories Limited (ULL) as the company will be manufacturing various drugs under contract manufacturing agreement for ULL.

- **Healthy financial risk profile with significant improvement in margins**

The financial risk profile of ODPL is healthy marked by healthy net worth, improving capital structure post investment by ULL, coverage ratio and leverage ratios of the company. The tangible net worth of ODPL stood at Rs.81.36 crore as on 31 March, 2018 as compared to Rs.62.89 crore as on 31 March, 2017. The gearing (debt-equity) stood comfortable at 0.61 times as on 31 March, 2018 as against 0.51 times as on 31 March, 2017. The total debt of Rs.49.37 crore as on 31 March, 2018 consist of Rs.3.36 term loan, working capital facility of Rs.44.61 crore and Rs.1.40 crore of unsecured loan. The coverage indicators of ODPL are healthy marked by Interest Coverage Ratio (ICR) of 11.23 times for FY2018 as compared to 11.50 times for FY2017. DSCR stood at 4.63 times for FY2018. Total outside Liabilities to Tangible Net worth (TOL/TNW) stood at 1.27 times as on 31 March, 2018 as against 1.33 times in FY2017. The EBITA margins of ODPL improved substantially to 22.86 percent for FY2018 as against 8.99 percent for FY2017, the major reason for increase in EBITA margins is due to process optimization developed by in-house R&D and economies of scale achieved by the company. Acuité believes that the financial risk profile of ODPL will continue to remain healthy on the back of healthy cash accruals and the additional capital

infusion from Unichem Laboratories Limited to the tune of ~Rs. 35.00 crore. The company also plans to undergo a capital expenditure of around ~Rs. 75.00 crore span out in two financial years. Considering the current debt funded capex, the additional debt funded capex is not likely to significantly impact the financial risk profile of the company in near to medium term. Any higher-than-expected deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

- **Diversified client base**

ODPL has a diversified client portfolio with top 10 clients contributing ~40.00 percent of the total revenue of Rs.199.67 crore in FY2018 compared to ~43.00 percent of total revenues of Rs.321.48 crore in FY2017. Some of the top clients include Glenmark Pharmaceuticals Limited, Aurobindo Pharma Limited, Apotex Pharmachem Private Limited and Mylan Laboratories.

Weaknesses

- **Deterioration in Working capital operations**

The working capital of ODPL has deteriorated in FY2018 over FY2017 marked by increase in Gross Current Asset (GCA) of 190 days in FY2018 compared to 99 days in FY2017. The GCA days are mainly dominated by high debtors of 103 days in FY2018 compared to 48 days in FY2017. The major reason for increase in the collection period is due to change in credit policy to 60 - 90 days credit from 50 percent advance given to customers. The average cash credit utilisation for the past six months ending August 2018 stood at ~85 percent. Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Intense competition and regulated pharmaceutical industry**

The company is exposed to intense competition from organised and unorganised players. However, ODPL has more than a decades experience and has been able to establish itself in the Indian pharmaceutical industry. Further, the pharmaceutical industry is highly regulated and hence, any adverse change in government policies domestic and internationally can impact the company's credit profile.

Outlook: Stable

Acuité believes that ODPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management, established presence in the market and reputed clientele. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving improvement in profit margins, capital structure and coverage indicators. The outlook may be revised to 'Negative' in case the company reports lower-than-expected revenues and profit margins, or in case of deterioration in the company's capital structure.

Liquidity position

ODPL has adequate liquidity marked by healthy net cash accruals of over Rs.20.00 crore during FY2017-18. The company has long term debt obligations of Rs.3.36 crore in FY2018. The cash accruals of the company are estimated to remain between Rs.20.00 – 30.00 crore in the near to medium term, while its repayment obligations are estimated to range between Rs.1.50 crore to Rs.4.00 crore in the medium term, as the company is planning to undertake debt of ~Rs.33.00 crore for capital expenditure in the medium term. The company's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 190 in FY2018. The company had unencumbered cash and bank balances of Rs.8.52 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.06 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and low debt repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	198.67	321.48	265.12
EBITDA	Rs. Cr.	45.41	28.92	18.31
PAT	Rs. Cr.	18.47	18.53	11.22
EBITDA Margin	(%)	22.86	8.99	6.91
PAT Margin	(%)	9.30	5.76	4.23
ROCE	(%)	36.39	33.14	51.21

Total Debt/Tangible Net Worth	Times	0.61	0.51	0.37
PBDIT/Interest	Times	11.23	11.50	6.91
Total Debt/PBDIT	Times	1.08	1.07	0.90
Gross Current Assets (Days)	Days	190	99	110

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

Not Applicable

Any other information

As informed by the management, a search and seizure proceedings under Income Tax Act, 1961 was conducted on the company and its promoters IN FY2017 and FY2018. The company has approached the settlement commission regarding the same and the current status on the same is pending final order.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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
22-Nov-2017	Cash Credit	Long Term	16.00	ACUITE A-/Stable (Upgraded)
	Term Loan	Long Term	3.72	ACUITE A-/Stable (Upgraded)
	Cash Credit	Long Term	11.00	ACUITE A-/Stable (Upgraded)
	Packing Credit	Short Term	20.00	ACUITE A2+ (Assigned)
	Bills Discounting	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	9.00	ACUITE A2+ (Upgraded)
	Letter of Credit	Short Term	9.00	ACUITE A2+ (Upgraded)
	Proposed Bank Facility	Long Term	1.28	ACUITE A- / Stable (Assigned)
03-Aug-2016	Cash Credit	Long Term	5.00	ACUITE BBB+/Positive (Upgraded)
	Term Loan	Long Term	1.50	ACUITE BBB+/Positive (Upgraded)
	Cash Credit	Long Term	7.00	ACUITE BBB+/Positive (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Upgraded)
	Derivative Exposure	Short Term	0.50	ACUITE A2 (Upgraded)
	Letter of Credit	Short Term	7.00	ACUITE A2 (Assigned)

	Secured Overdraft	Long Term	3.00	ACUITE BBB+/Positive (Upgraded)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Withdrawn)
	Bank Guarantee	Short Term	0.50	ACUITE A2 (Withdrawn)
29-May-2015	Cash Credit	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Secured Overdraft	Long Term	3.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	6.06	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3+ (Assigned)
	Derivative Exposure	Short Term	0.50	ACUITE A3+ (Assigned)
	Proposed Working Capital Demand Loan	Short Term	0.94	ACUITE A3+ (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.72	ACUITE A/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A/Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A2+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.28	ACUITE A/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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