

Press Release

Karvy Therapeutics Private Limited (KTPL)

16 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 8.90 Cr.
Long Term Rating	SMERA BB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as SMERA double B minus) on the Rs. 8.90 crore bank facilities of Karvy Therapeutics Private Limited (KTPL). The outlook is '**Stable**'.

Incorporated in 1989, KTPL is promoted by Mr. Jagdish Kothari and Mr. Parag Kothari (son). The company is engaged in the manufacturing of fine chemicals and bulk drug intermediates near Rajkot, Gujarat.

Key rating drivers

Strengths

Healthy track record of operations experienced management

KTPL was incorporated in 1989 by Mr. Parag Kothari and Mr. Jagdish Kothari. The company has experience of over two decades in the manufacturing of drugs, drug intermediates, fine chemicals and specialty chemicals. The promoters have experience of almost three decades in the API industry. The extensive experience of the promoters has helped the company develop healthy relations with clients.

Moderate financial risk profile

KTPL has moderate financial risk profile marked by tangible net worth of Rs. 6.34 crore as on 31 March, 2017 as against Rs.5.47 crore as on 31 March, 2016. The gearing stood at 1.09 times as on 31 March, 2017 as against 0.95 times as on 31 March, 2016. The debt of Rs. 6.88 crore mainly consists of term loans of Rs. 0.58 crore unsecured loans of Rs. 4.36 crore and working capital borrowings of Rs. 1.94 crore as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 3.21 times for FY2017 as against 2.66 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 1.92 times for FY2017 as against 1.98 times in FY2016. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.79 times as on 31 March, 2017 as against 1.44 times as on 31 March, 2016. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.17 times as on 31 March, 2017 and 0.23 times as on 31 March, 2016. SMERA expects that gearing will deteriorate marginally in the medium term on account of additional debt funded capex plans. However, in the long run the plant will help improve revenues.

Weaknesses

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Modest scale of operations marked by uneven revenue trend

The scale is modest despite operations commencing in 1989. The revenue stood at Rs. 15.57 crore in FY2017 and Rs. 8.22 in FY2016 as against Rs.10.01 crore in FY2015. The operating margins declined to 15.23 percent in FY2017 from 21.30 per cent in FY2016.

Working capital intensive operations

The operations of KTPL are working capital intensive with high GCA of 258 days in FY2017 as against 288 days in FY2016. The GCA days are mainly dominated by debtor days of 127 days in FY2017 compared to 155 days in FY2016. SMERA believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Customer concentration risk

KTPL IS exposed to customer concentration risk as 65 percent of its revenues in FY2017 are coming from Medilux Laboratories Private Limited and Satyadeva Pharmaceuticals Private Limited. However the risk is partly mitigated on account of established relationships with these customers.

Intense market competition

KTPL operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of players in the unorganised sector limits its bargaining power with customers.

Analytical approach:

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

Outlook – Stable

SMERA believes that KTPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	15.57	8.22	10.01
EBITDA	Rs. Cr.	2.37	1.75	1.66
PAT	Rs. Cr.	0.87	0.77	0.34
EBITDA Margin (%)	(%)	15.23	21.30	16.55
PAT Margin (%)	(%)	5.57	9.42	3.43
ROCE (%)	(%)	17.60	16.65	13.29
Total Debt/Tangible Net Worth	Times	1.09	0.95	1.19
PBDIT/Interest	Times	3.21	2.66	2.33
Total Debt/PBDIT	Times	2.83	2.42	3.37
Gross Current Assets (Days)	Days	258	288	228

Any other information:

Not Applicable

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>

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

None

Rating History (Upto last three years)

Not Applicable

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	2.50	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.12	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.20	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.11	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.10	SMERA BB- / Stable

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Term Loan	Not Applicable	Not Applicable	Not Applicable	0.87	SMERA BB- / Stable
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ABOUT SMERA

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