

**Press Release**  
**Karvy Therapeutics Private Limited**  
 May 13, 2019  
**Rating Reaffirmed**



<b>Total Bank Facilities Rated*</b>	Rs.8.90 Cr.
<b>Long Term Rating</b>	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 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.

**Analytical Approach**

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

**Key Rating Drivers**

**Strengths**

**• Established presence in the chemical industry**

KTPL was incorporated in 1989 by Mr. Parag Kothari and Mr. Jagdish Kothari. The company has an experience over two decades in the field of manufacturing drugs, drug intermediates, fine chemicals & Specialty Chemicals. Due to longstanding experience it has developed healthy relations with its clients. The promoters have experience of almost three decades in the Active Pharmaceutical Industry.

Acuité believes that KTPL will continue to benefit from the promoter's established presence in the chemical industry and its improving its business risk profile over the medium term.

**• Moderate financial risk profile**

KTPL has moderate financial risk profile marked by tangible net worth of Rs.7.52 crore as on 31 March, 2018 as against Rs.6.34 crore as on 31 March, 2017. The gearing (debt/equity) stood at 0.69 times as on 31 March, 2018 as against 1.09 times as on 31 March, 2017. The debt of Rs.5.19 crore as on 31 March 2018 mainly consists of term loans of Rs.0.45 crore, unsecured loans of Rs.4.25 crore and working capital borrowings of Rs.0.49 crore. Interest Coverage Ratio (ICR) marginally improved at 3.84 times for FY2018 as against 3.21 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 2.40 times for FY2018 as against 1.92 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.10 times for FY2018 as against 1.79 times for FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.28 times for FY2018 as against 0.17 times for FY2017.

**Weaknesses**

**• Modest scale of operations marked by uneven revenue trend**

The scale is modest despite operations commencing in 1989. The revenue stood at Rs.13.31 crore in FY2018 and Rs.15.57 in FY2017 as against Rs.8.22 crore in FY2016. Further, the company has registered revenues of ~Rs.14.00 crore for FY2019 (Provisional).

**• Working capital intensive operations**

The operations of KTPL are working capital intensive with high GCA of 212 days in FY2018 as against 258 days in FY2017. The GCA days are mainly dominated by debtor days of 107 days in FY2018 compared to 127 days in FY2017 while the inventory was in the range of 100-145 days. Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

**• Project Execution Risk**

The company has planned to set up additional capacity that would lead to increase in its production capacity. The project is expected to be operational by March 2020. The project cost is estimated to be Rs.20.00 crore. Which will be funded by term loan from bank and unsecured loans from promoters, out of which the company has raised Rs.6.40 crore term loan and Rs.4.25 crore in the form of unsecured loans. Acuité believes that timely completion of the project and commencement of operations will be critical.

**• Competitive and fragmented industry**

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

**Liquidity position**

KTPL has moderate liquidity position marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals in the range of Rs.1.19 crore – Rs.1.45 crore against which its debt obligations stood in the range of Rs.0.09 crore – Rs.0.26 crore. The cash accruals of the company are estimated to be in the range of Rs.1.28 - Rs.2.10 crore for FY2019-FY2021 against which the debt obligations are expected to be around Rs.1.20 crore. The current ratio stood at 2.68 times for FY2018 as compared to 1.79 times for FY2017.

**Outlook: Stable**

Acuité 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	13.31	15.57	8.22
EBITDA	Rs. Cr.	2.60	2.37	1.75
PAT	Rs. Cr.	1.18	0.87	0.77
EBITDA Margin (%)		19.55	15.23	21.30
PAT Margin (%)		8.84	5.57	9.42
ROCE (%)		18.05	17.60	16.65
Total Debt/Tangible Net Worth	Times	1.10	1.79	1.44
PBDIT/Interest	Times	3.84	3.21	2.66
Total Debt/PBDIT	Times	1.99	2.83	2.42
Gross Current Assets (Days)	Days	212	258	288

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

None

**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
16-Feb-18	Cash Credit	Long term	2.50	ACUITE BB-/Stable (Assigned)
	Term loans	Long term	0.12	ACUITE BB-/Stable (Assigned)
	Term loans	Long term	0.20	ACUITE BB-/Stable (Assigned)
	Term loans	Long term	0.11	ACUITE BB-/Stable (Assigned)
	Term loans	Long term	5.10	ACUITE BB-/Stable (Assigned)
	Term loans	Long term	0.87	ACUITE BB-/Stable (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	2.50	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.11	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.10	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.87	ACUITE BB-/Stable (Reaffirmed)

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**About Acuité Ratings & Research:**

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