

Press Release

Karvy Therapeutics Private Limited

August 03, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite 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

Acuite 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 experience over two decades in the field of manufacturing drugs, drug intermediates, fine chemicals & speciality chemicals. Due to its longstanding presence, the company has developed healthy relations with its clients. The promoters have experience of almost three decades in the Active Pharmaceutical Ingredients (API) Industry.

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

- **Moderate financial risk profile**

The company has moderate financial risk profile marked by tangible net worth of Rs.9.09 crore as on 31st March, 2019 as against Rs.7.52 crore as on 31st March, 2018. The gearing (debt/equity) stood at 0.93 times as on 31st March, FY2019 as against 0.69 times as on 31st March, FY2018. The debt of Rs.8.50 crore mainly consists of term loans of Rs.2.35 crore, unsecured loans of Rs.4.28 crore and working capital borrowings of Rs.1.87 crore as on 31 March 2019. Interest Coverage Ratio (ICR) improved at 5.18 times for FY2019 as against 3.84 times in FY2018. Debt Service Coverage Ratio (DSCR) stood at 3.60 times for FY2019 as against 2.40 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.35 times for FY2019 as against 1.10 times for FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.21 times for FY2019 as against 0.28 times for FY2018.

Acuite believes that the financial risk profile will continue to remain moderate on account of moderate growth in revenues and profitability.

Weaknesses

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

Though the company has been in existence for nearly two decades, the operations remained modest with revenues of about Rs.13.47 crore in FY2020 (estimated) as against Rs.14.32 crore in FY2019 and Rs.13.31 crore in FY2018.

Acuite believes that the ability of the firm to increase the scale of operations would be the key rating sensitivity factor over the medium term.

• Working capital intensive operations

Operations of the company are working capital intensive marked by a high Gross Current Asset (GCA) of 246 days for FY2019 as compared 212 days for FY2018. The deterioration in GCA days is majorly driven by an increase in inventory period of 146 days in FY2019 compared to 104 days in FY2018. Further, the debtor days stood at 81 days in FY2019 as against 107 days in FY2018 and the company avails a credit period of 30-60 days from its suppliers.

Acuite believes that the operations continue to be working capital intensive at similar levels over the medium term.

• Project Execution Risk

The company is setting up an additional manufacturing unit that would lead to an increase in its production capacity. The project is expected to be operational by April 2021. The project cost is estimated to be Rs.22.00 crore which will be funded by term loan from the bank and unsecured loans from promoters. The company has raised Rs.6.40 crore term loan and Rs.4.28 crore in the form of unsecured loans as on 31st March, 2019.

Acuite 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: Adequate

The company has adequate liquidity, marked by moderate net cash accruals to its maturing debt obligations. The net cash accruals stood at Rs.1.80 crores as compared to its total repayment obligations of Rs.0.50 crores in FY2019. The cash accruals of the company are estimated to be in the range of Rs.1.55 crore – Rs.2.19 crore during 2020-22. The current ratio stood at 2.00 times for FY2019 as compared to 2.68 times for FY2018. Acuite believes that the liquidity of KTPL is likely to remain adequate over the medium term on account of moderate net cash accruals against long term debt repayments.

Outlook: Stable

Acuite 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 a decline in revenues, profit margins, or deterioration in the financial risk profile and liquidity position.

Rating Sensitivities

- Improvement in the scale of operations while maintaining profitability margins
- Deterioration in working capital management will have a further impact on liquidity

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	14.32	13.31
PAT	Rs. Cr.	1.57	1.18
PAT Margin	(%)	10.99	8.84
Total Debt/Tangible Net Worth	Times	0.93	0.69
PBDIT/Interest	Times	5.18	3.84

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
13-May-19	Cash Credit	Long term	2.50	ACUITE BB-/Stable (Reaffirmed)
	Term loans	Long term	0.12	ACUITE BB-/Stable (Reaffirmed)
	Term loans	Long term	0.20	ACUITE BB-/Stable (Reaffirmed)
	Term loans	Long term	0.11	ACUITE BB-/Stable (Reaffirmed)
	Term loans	Long term	5.10	ACUITE BB-/Stable (Reaffirmed)
	Term loans	Long term	0.87	ACUITE BB-/Stable (Reaffirmed)
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 Available	Not Applicable	Not Available	0.12	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Available	Not Applicable	Not Available	0.20	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Available	Not Applicable	Not Available	0.11	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Available	Not Applicable	Not Available	5.10	ACUITE BB-/Stable (Reaffirmed)
Term loans	Not Available	Not Applicable	Not Available	0.87	ACUITE BB-/Stable (Reaffirmed)

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About Acuite Ratings & Research:

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