

Press Release

Gnosis Pharmaceuticals Private Limited (GPPL)

28 October, 2017



Rating Assigned and Reaffirmed

Total Bank Facilities Rated*	Rs.5.68 Cr
Long Term Rating	SMERA BB/ Outlook: Stable

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB (read as SMERA double B)**' to the to the Rs.5.68 crore bank facilities of Gnosis Pharmaceuticals Private Limited (GPPL). The outlook is '**Stable**'.

GPPL was incorporated in 2005 by Mr. Ramesh Khurana is engaged in manufacturing pharmaceutical formulations and also undertakes contract manufacturing for pharmaceutical companies such as Glowderma Lab Pvt Ltd, Micro Labs Ltd and Curosis Healthcare Pvt Ltd.

List of Key Rating Drivers and their detailed description

Strengths:

Experienced promoters and second line of management: GPPL is a Himachal Pradesh-based company. Mr. Ramesh Khurana, have more than 25 years of experience in this line of business and it has helped the management in developing good relations with reputed companies.

Conservative financial risk profile: The company has moderate financial risk profile marked by moderate net worth of Rs.6.24 crore (includes quasi equity of Rs.3.22 crore as subordinated with bank's debt) as on 31st March 2016 as compared to Rs.6.20 crore (includes quasi equity of Rs.3.22 crore as subordinated with bank's debt) as on 31st March 2015 on account of retention of profit into the business. The gearing of company stands healthy at 0.71 times as on March 31, 2016 as compared to 0.74 times as on March 31, 2015, the low and healthy gearing is eminent from the net worth of Rs.6.24 crore as on March 31, 2016 as against total debt of Rs.4.42 crore as on March 31, 2016 (includes the term loan of Rs. 0.80 crore and short-term debt of Rs. 3.63 crore).

The interest coverage ratio of the company has stands healthy and marginally declined and stands at 2.54 times in FY2016 vis-à-vis 2.62 times in FY2015 on account of declining in profitability profile of the company. The Net Cash Accrual to Total Debt (NCA/TD) of the company stands at 0.22 times in FY2015-16. SMERA expects the debt protection metrics and capital structure to remain prudent on account of GGPs ability to maintain profitability margins over the medium term.

Weaknesses:

Competitive and fragmented nature of industry: Pharmaceutical is a highly competitive industry due to presence of multiple players GPPL is exposed to competition from players in the market owing to presence of players like IndSwift, SBS Biotech, Symbiosis Pharmaceutical Private Limited and so on who are also into the similar business.

Working Capital intensive: The business of the company is working capital intensive marked by GCA days of 141 days in FY2015-16 as against 158 days in FY2014-15. The high GCA days are eminent from inventory days and increased debtor days of the company at 70 days and 71 days respectively in FY2015-16. SMERA also notes that the company has stretched liquidity position marked by the average cash credit utilisation of around 95 per cent for the period of October 2015 to September 2016.

Analytical approach: The team has considered the standalone business and financial risk profile of the company.

Applicable Criteria

- Manufacturing entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Rating Sensitivity

- Scaling up of operations while improving profit margins
- Working capital cycle

Outlook: Stable

SMERA believes that GPPL will maintain a stable outlook over the medium term on account of experienced management and healthy relations with its customers and suppliers. The outlook may be revised to 'Positive' if the company reports higher than expected revenues and improved profitability margins or prudent improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in its capital structure on account of larger-than-expected working capital requirements or any large debt-funded capital expenditure (capex) adversely impacting its financial risk profile.

About the rated entity - Key financials

In FY2015-16, the company achieved operating income of Rs.38.84 crore with Profit After Tax (PAT) of 0.05 crore as compared to the operating income of Rs. 32.21 crore with net loss of Rs. 0.03 crore a year earlier. The net worth of the company was Rs.6.24 crore in FY2015-16 as compared to 6.20 crore a year earlier. The net worth of Rs.6.24 crore in FY2015-16 includes quasi equity of Rs. 3.22 crore.

Status of non-cooperation with previous CRA (if applicable): CRISIL in its press release dated 23rd December, 2016 had inter-alia mentioned the following: 'CRISIL has suspended its ratings on the bank facilities of Gnosis Pharmaceuticals Private Limited (GPPL). The suspension of ratings is on account of non-cooperation by GPPL with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, GPPL is yet to provide adequate information to enable CRISIL to assess GPPL's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information.'

Any other information: None

Rating history (last three years):

Name of Instrument /Facilities	FY 2018			FY 2017		FY 2016		FY 2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	4.00	SMERA BB/Stable (Reaffirmed)	-	-	24 December 2015	SMERA BB /Stable (Assigned)	-	-
Term Loan- I	L T	0.70 (reduced from Rs.1.68 crore)	SMERA BB /Stable (Reaffirmed)	-	-	24 December 2015	SMERA BB /Stable (Assigned)	-	-
Term Loan – II	L T	0.98	SMERA BB /Stable (Assigned)	-	-	-	-	-	-

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	N.A	N.A	N.A	Rs. 4.00 Cr	SMERA BB/Stable (Reaffirmed)
Term Loan-I	N.A	N.A	Not Available	Rs. 0.70 (reduced from Rs. 1.68 crore)	SMERA BB/Stable (Reaffirmed)
Term Loan – II	N.A	N.A	Not Available	0.98	SMERA BB/Stable (Assigned)

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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