SMERA RATINGS LIMITED

Pharmalab India Private Limited: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	9.00*	SMERA BB+/Stable (Assigned)
Bank Guarantee	4.00**	SMERA A4+(Assigned)
Credit Exposure Limits	0.10	SMERA A4+(Assigned)

**Export Packing Credit/Packing credit in foreign currency/Foreign bill discounting/Export bill rediscounting of Rs. 9.00 crore – sub limit within Cash Credit*

*** Letter of Credit (LC) of Rs. 0.50 crore – sub limit within Bank Guarantee*

SMERA has assigned long-term rating of **'SMERA BB+' (read as SMERA double B plus)** and short-term rating of **'SMERA A4+' (read as SMERA A four plus)** to the above mentioned bank facilities of Pharmalab India Private Limited (PIPL). The outlook is **'Stable'**. The ratings draw comfort from the promoter's extensive industry experience, comfortable financial risk profile and healthy relations with customers and suppliers. However, the ratings are constrained by the working capital intensive operations, exposure to intense market competition and foreign exchange fluctuation risk.

PIPL, incorporated in 2004, is a Mumbai-based company, headed by Mr. Nitin P Shah, Mr. Umesh P Shah and Karnik Parikh, Directors. The company is engaged in the designing, manufacturing, installation and commissioning of fabricated stainless steel process equipments and packaging equipments used in the pharma industry. The company benefits from its experienced management. The directors possess over four decades of experience in the capital goods industry.

The company has comfortable financial risk profile marked by gearing of 1.09 times (1.43 times in the previous year) as on March 31, 2016 (provisional). The Interest coverage ratio (ICR) and debt service ratio stood at 3.63 times (3.84 times in previous year) and 2.72 times (3.03 times in previous year) respectively in FY2016 (provisional).

The company's operations are working capital intensive evident from the high GCA days of around 256 in FY2016 (provisional). This is due to the huge inventory holding days of 113 and credit extended to customers (Debtor days of 89). The ratings are also constrained by the foreign exchange fluctuation risk since the company earns around ~30 per cent revenue from export to USA, Europe, Turkey, Iran and Africa.

Rating Sensitivity Factors

- Substantial and sustainable growth in revenues or operating margins
- Efficient working capital management
- Price trends of key raw materials

Outlook-Stable

SMERA believes that PIPL will maintain a stable outlook over the medium term owing to the promoters' extensive industry experience and comfortable financial risk profile. The outlook may be revised to 'Positive' if the scale of operations increases substantially while maintaining operating profitability. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve profitability or if the financial risk profile deteriorates owing to higher capex or more than envisaged working capital requirements.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

The Mumbai-based PIPL, (the erstwhile Pharmalab Process Equipments Private Limited) was established in 2004 by Mr. Nitin P Shah, Mr. Umesh P Shah and Karnik Parikh of Gujarat. The company is engaged in the designing, manufacturing, installation and commissioning of fabricated stainless steel processing and packaging equipments used in the pharma industry. PIPL has three ISO certified manufacturing units on the outskirts of Ahmedabad (Gujarat).

For FY2015–16, PIPL reported profit after tax (PAT) of Rs.3.03 crore on (Provisional), operating income of Rs.69.39 crore as compared with PAT of Rs.3.55 crore on operating income of Rs.68.03 crore in the previous year.

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ABOUT SMERA

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