

### Centurion Laboratories Private Limited: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	2.00*	SMERA BB+/Stable (Assigned)
Term Loan I	10.68	SMERA BB+/Stable (Assigned)
Term Loan II	4.50	SMERA BB+/Stable (Assigned)
Letter of Credit/Buyer's Credit	2.00	SMERA A4+ (Assigned)

*\*Includes sub-limit of Pre-shipment Export packing Credit to the extent of Rs.1.35 crore*

*\*Includes sub-limit of Foreign Bills Purchased/Discounted to the extent of Rs.2.00 crore*

*\*Includes sub-limit of Letter of Credit/Buyer's Credit to the extent of Rs.1.50 crore*

*\*Includes sub-limit of Bank Guarantee to the extent of Rs.1.00 crore*

SMERA has assigned ratings of '**SMERA BB+**' (read as **SMERA double B plus**) and '**SMERA A4+**' (read as **SMERA A four plus**) on the abovementioned bank facilities of Centurion Laboratories Private Limited (CLPL). The outlook is '**Stable**'.

For arriving at the rating, SMERA has taken a consolidated view on the business and financial risk profile of CLPL and Centurion Remedies Private Limited (CRPL) (SMERA BBB-/Stable/A3). The aforementioned entities are collectively referred to as 'Centurion'. The consolidation is in view of the similarity in the business model, common management and operational synergies. However, the rating of CLPL is constrained due to its limited track record of operations.

The ratings continue to draw comfort from the group's long track record of operations, stable business profile and comfortable financial risk profile. Yet, the ratings are constrained by the susceptibility of profit margins to raw material price volatility, fluctuations in forex rates, geographical concentration risk and intense market competition. Besides, the ratings factor in the highly competitive and regulated pharmaceutical industry.

Centurion reported net profit of Rs.2.75 crore on operating income of Rs.152.19 crore (provisional) for FY2015-16 as against net loss of Rs.0.40 crore on operating income of Rs.95.29 crore in FY2014-15. The group has been able to post net profit in FY2015-16 (vis-a-vis loss in the previous year) on the back of significant jump in revenues resulting in better absorption of fixed costs including depreciation charges.

Nonetheless, Centurion's operating margins declined to 6.69 per cent in FY2015-16 (provisional) as against 8.57 per cent in FY2014-15 on account of adverse movements in raw material prices that had to be partially absorbed by the group. Centurion also caters to state government bodies in India and neighbouring countries resulting in moderation of margins with increase in the tender based business.

The financial risk profile of the group is comfortable. The debt-to-equity ratio stood at 1.60 times as on March 31, 2016 (provisional) from 1.72 times as on March 31, 2015. The interest coverage indicators stood at 4.10 times for FY2015-16 as against 2.88 times for FY2014-15. The average utilisation of working capital facilities was 60 per cent for six months ended July 2016.

However, the group continues to face intense competition from several players in the pharmaceutical industry. The operations are susceptible to adverse changes in regulations governing the healthcare and pharmaceutical industry. Centurion is also exposed to geographical concentration risks with high dependence on orders from Philippines. The group's profit margins are susceptible to volatility in raw material prices and fluctuations in forex rates.

### Rating Sensitivity Factors

- Movement of operating margins and raw material fluctuations
- Efficient working capital management
- Decline in net cash accruals to meet term loan repayments

### Outlook: Stable

SMERA believes that CLPL will continue to maintain a stable outlook and benefit over the medium term on account of its established presence in the formulation industry and experienced management. The outlook may be revised to 'Positive' if the company registers higher-than-expected revenues and cash accruals while demonstrating improvement in the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the business risk profile weakens resulting in lower than expected revenues or profitability and fall in expected net cash accruals leading to significant stretch in the working capital cycle.

### Criteria applied to arrive at the ratings:

- Manufacturing Entities
- Consolidation

### About the Companies

CRPL was established as a proprietorship firm in 1986 by Mr. Ambalal V. Patel and converted into a private limited company in 2003. The company is engaged in the manufacture of generic formulations. It also undertakes contract manufacturing apart from catering to merchant exporters and state government bodies in India. The company has ISO 9001:2000 and WHO-GMP certifications and its manufacturing unit is located at Baroda, Gujarat.

CLPL, incorporated in December 2006 was promoted by Mr. Dhruval Patel and Mr. Ambalal Patel who possess over 20 years of experience in the pharmaceutical industry. The company commenced commercial operations in 2014 and exports to customers in Philippines that were earlier handled by CRPL.

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## ABOUT SMERA

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