

Press Release

Centurion Laboratories Private Limited

August 17, 2020



Rating Upgraded

Total Bank Facilities Rated*	Rs.19.18 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB-**'(read as **ACUITE triple B minus**) from '**ACUITE BB+**'(read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A3**'(read as **ACUITE A three**) from '**ACUITE A4+**'(read as **ACUITE A four plus**) on the Rs.19.18 crore bank facilities of Centurion Laboratories Private Limited (CLPL). The outlook is '**Stable**'.

The rating upgrade takes into account the improvement in the business and financial risk profile of the company. The revenues of the company stood at Rs. 113.44 crore (Prov) for FY2020 as against Rs.73.72 crore for FY2019 registering a growth of ~53.87 per cent. Also, there is a significant growth in the profitability margins as reflected from PAT margins of 4.26 per cent (Prov) in FY2020 and 1.85 percent in FY2019. The rating continues to draw comfort from the long-standing experience of the management.

Baroda based, CLPL was incorporated in 2006 and commenced operations in 2014. The current directors of CRPL are Mr. Dhrupal Patel and Mr. Ambalal Patel. CLPL is engaged in the manufacturing and exports of a wide range of veterinary and allopathic products. The company has a production capacity of 840 crore tablets and 270 crore capsules per annum. The capacity utilization is full.

About the Group

Centurion Group includes Centurion Remedies Private Limited (CRPL) and Centurion Laboratories Private Limited (CLPL). The group is engaged in the manufacturing and exports of a wide range of veterinary and allopathic products, as well as generic formulations for merchant exporters, domestic formulators and state-level government bodies.

Analytical Approach

To arrive at this rating, Acuité has consolidated the business and financial risk profiles of Centurion Remedies Private Limited (CRPL) and Centurion Laboratories Private Limited (CLPL) together referred to as Centurion Group. The consolidation is in view of similarity in the line of business, common management, and operational synergies among the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

CLPL was incorporated in 2006 and commenced operations in 2014. The directors of the company are Mr. Dhrupal Patel and Mr. Ambalal Patel, who have amassed more than two decades of experience in the aforementioned line of business. The established track record of operations and experience of management has helped the group to maintain a diversified and reputed client base.

Acuité believes that Centurion Group will continue to benefit through the experienced management and established track record of operations.

- **Moderate financial risk profile**

The group has a moderate financial risk profile marked by moderate networth and above-average debt protection metrics. The net worth stood at Rs.32.75 crore (Prov) as on 31 March, 2020 as against Rs.23.42 crore as on 31 March 2019 due to healthy accretion to reserves.

The group has followed a moderately aggressive financial policy in the past, the same is reflected through its gearing levels of 2.56 times as on March 31, 2019. The gearing improved to 1.73 times (Prov) as on March 31, 2020 on account of reduction in working capital requirements and repayment of term loans.

Further, the interest coverage ratio improved to 7.05 times (Prov) for FY2020 as compared to 3.78 times for FY2019. Total outside liabilities to total net worth (TOL/TNW) stood at 4.21 times (Prov) as on 31 March, 2020 as against 4.34 times as on 31 March, 2019.

Acuité believes that financial risk profile of the group is likely to remain moderate over the medium term, on account of moderate networth and above-average debt protection metrics.

Weaknesses

- **Working capital intensive nature of operations**

The group's operations are intensive in nature with regards to working capital as reflected in Gross Current Assets (GCA) of 227 days (Prov) in FY2020 as against 211 days in FY2019. GCA days remained high due to debtor's collection period of 125 days (Prov) as on 31 March 2020 as compared to 107 days as on 31 March 2019.

Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of the high debtor's collection period.

- **Competitive and fragmented nature of the industry**

The group operates in the pharmaceutical industry, which is characterised by a large number of organised and unorganised players, leading to intense competition. However, the risk is mitigated to an extent due to the established track record of operations.

Liquidity position: Adequate

The group has adequate liquidity, marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.12.04 crore (Prov) for FY2020 with debt repayment obligation of Rs.2.05 crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs.10.75 crore to Rs.12.16 crore during 2021-23 against debt repayment obligations in the estimated range of around Rs.2.05 crore per year in the same period. The average bank limit utilization for the past twelve months ended June 2020 remained ~79.75 percent for CRPL. The group's working capital operations are intensive, marked by 227 Gross Current Asset (GCA) days (Prov) for FY2020. CG maintains unencumbered cash and bank balances of Rs.7.38 crore (Prov) as on 31 March 2020. The current ratio stood at 1.48 times (Prov) as on 31 March 2020.

Acuité believes that the liquidity of the group is likely to remain adequate on account of adequate cash accrual against debt repayments over the medium term.

Rating Sensitivities:

- Improvement in profitability margins
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

None

Outlook: Stable

Acuité believes that CLPL will maintain a 'Stable' outlook over the medium term backed by its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20(Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	208.67	151.18
PAT	Rs. Cr.	8.44	3.51
PAT Margin	(%)	4.04	2.32
Total Debt/Tangible Net Worth	Times	1.73	2.56
PBDIT/Interest	Times	7.05	3.78

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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 the Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-May- 2019	Cash Credit	Long Term	5.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan 1	Long Term	4.02	ACUITE BB+/Stable (Reaffirmed)
	Term Loan 2	Long Term	2.78	ACUITE BB+/Stable (Reaffirmed)
	Term Loan 3	Long Term	2.08	ACUITE BB+/Stable (Reaffirmed)
	Packing Credit	Long Term	0.80	ACUITE BB+/Stable (Reaffirmed)
	Letter of Credit/Buyer's Credit	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	2.50	ACUITE A4+ (Reaffirmed)
06-Mar-2018	Cash Credit	Long Term	5.00 (Enhanced from Rs.2.00 crore)	ACUITE BB+/Stable (Reaffirmed)
	Term Loan 1	Long Term	4.02	ACUITE BB+/Stable (Reaffirmed)
	Term Loan 2	Long Term	2.78	ACUITE BB+/Stable (Reaffirmed)
	Term Loan 3	Long Term	2.08	ACUITE BB+/Stable (Assigned)

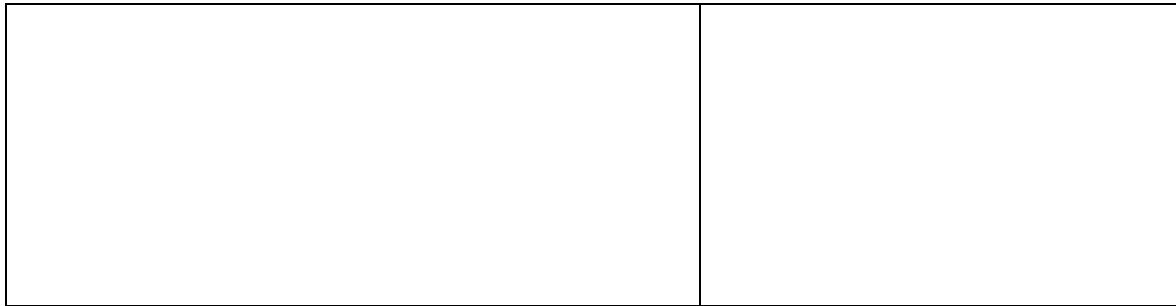
	Packing Credit	Long Term	0.80	ACUITE BB+/Stable (Assigned)
	Letter of Credit/Buyer's Credit	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	2.50	ACUITE A4+ (Assigned)
27-Dec-2017	Cash Credit	Long Term	2.00	ACUITE BB+ (Indicative)
	Term Loan 1	Long Term	10.68	ACUITE BB+ (Indicative)
	Term Loan 2	Long Term	4.50	ACUITE BB+ (Indicative)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Indicative)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Upgraded)
Term Loan 1	Not Available	Not Applicable	Not Available	3.00	ACUITE BBB-/Stable (Upgraded)
Term Loan 2	Not Available	Not Applicable	Not Available	2.10	ACUITE BBB-/Stable (Upgraded)
Term Loan 3	Not Available	Not Applicable	Not Available	1.28	ACUITE BBB-/Stable (Upgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE BBB-/Stable (Upgraded)
Letter of Credit/Buyer's Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 (Upgraded)
Proposed Banking Facilities	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Ratings Tel:022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Stuti Fomra Analyst - Rating Operations Tel: 011-49731309 stuti.fomra@acuite.in	



About Acuité Ratings & Research:

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