

## Press Release

Centurion Laboratories Private Limited

May 18, 2021



### Rating Reaffirmed, Assigned and Withdrawn

<b>Total Bank Facilities Rated*</b>	Rs. 19.76 Cr (Enhanced from Rs. 19.18 Cr)
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable (Assigned, Reaffirmed & Withdrawn)
<b>Short Term Rating</b>	ACUITE A3 (Reaffirmed & Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-** (read as ACUITE triple B minus) and short term rating of '**ACUITE A3**' (read as ACUITE A three) on the Rs. 15.76 Cr bank facilities of Centurion Laboratories Private Limited (CLPL). The outlook is '**Stable**'.

Acuité has assigned the long term rating of **ACUITE BBB-** (read as ACUITE triple B minus) and the short term rating of '**ACUITE A3**' (read as ACUITE A three) on the Rs. 4.00 Cr bank facilities of CLPL. The outlook is '**Stable**'.

Further, Acuité has withdrawn the long term rating of '**ACUITE BBB-** (read as ACUITE triple B minus) on the Rs. 2.50 Cr bank facilities of CLPL.

### About the company

Baroda based, CLPL was incorporated in December 2006 and is engaged in the manufacturing of veterinary and allopathic products. It has a production capacity of 840 crore tablets and 270 crore capsules per annum. CLPL is promoted by Mr. Dhruv Patel and Mr. Ambalal Patel who have more than 20 years' experience in the pharmaceutical industry. CLPL commenced commercial operations in 2014 and majorly caters to export market.

### 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 government bodies. The group is promoted by Mr. Dhruv Patel and Mr. Ambalal Patel who have more than 20 years of experience in the pharmaceutical industry.

### Analytical Approach

Acuité has considered the consolidated view of the business and financial risk profiles of CRPL and CLPL to arrive at this rating. The aforementioned entities are collectively referred to as the Centurion Group. The consolidation is in view of the similar business model, common management, operational and financial synergies. Extent of consolidation: Full.

### Key Rating Drivers

#### Strengths

- **Experienced management and established track record of operations**

Centurion Group was formed by Mr. Dhruv Patel and Mr. Ambalal Patel in the year 1995. Mr. Dhruv Patel is the group CEO and Mr. Ambalal V Patel is the group managing director. The promoters have been associated with the group for more than 20 years, thus establishing healthy relationships with customers and suppliers throughout the pharmaceutical industry, which is reflected from the diverse customer base of the group that comprises of government clients, private clients as well as international clients. Acuité believes

that the group will continue to leverage its promoters' experience in order to continue establishing healthy relationships with its customers and suppliers.

#### • **Above-average Financial Risk Profile**

The financial risk profile of the group is above-average marked by moderate net worth, moderate gearing levels and healthy debt protection metrics and coverage indicators.

The net worth of the group is moderate at Rs. 29.45 crore as on March 31, 2020. The net worth levels have improved from FY2019 to FY2020 on account of healthy ploughing back of profits.

The group has followed a moderately aggressive financial policy in the past and is continuing with the same policy, though its gearing levels improved to 1.84 times as on 31st March 2020 as against 2.60 as on 31st March 2019 and total outside liabilities to tangible net worth (TOL/TNW) levels improved to 4.19 times as on March 31, 2020 as against 4.40 as on 31st March 2019. Also, Debt-EBITDA improved from 5.44 times in FY2019 to 4.58 times in FY2020.

The group has registered improvement in debt coverage indicators as evident by debt-service-coverage-ratio of 3.12 times as on 31st March, 2020 as against 1.84 times as on 31st March, 2019 and interest coverage ratio of 9.72 times as on 31st March, 2020 as against 3.78 times as on 31st March, 2019.

Acuité believes that the financial risk profile of the group will continue to remain above-average over the medium term on account of healthy debt protection metrics and expected improvement in net worth and debt-coverage indicators.

#### **Weaknesses**

##### • **Highly competitive and fragmented industry**

Centurion group operates in chemical compounds industry, which is marked by the presence of several mid to big size players in the organized as well as unorganized sector, which limits the pricing power of Centurion group. However, this risk is mitigated to an extent as the management has been operating in this industry for the over two decades.

##### • **Improved yet intensive working capital operations**

Centurion group's working capital operations improved though remained intensive as marked by high Gross Current Asset (GCA) of 198 days in FY2020 compared to 219 days in FY2019. The GCA days are dominated by high receivables of 140 days in FY2020 while the inventory days stood at 60 days for FY2020. Centurion Group enjoys credit period of 214 days for FY2020 which has increased from 132 days in FY2019 from its suppliers, which has helped the group to meet its incremental working capital requirements. Current Ratio stood at 1.37 times as on 31 March 2020.

Acuité believes that Centurion group's operations will continue to remain intensive over the medium term on account of high receivables period.

##### • **Susceptibility of margins to forex risk**

The group generates ~40 per cent of its revenue through exports and imports ~5 per cent of its raw material requirements. The profitability of the company is exposed to fluctuation in the product prices as same constitutes significant portion of the total sales. The prices of the commodity fluctuate and are highly dependent on the demand and supply scenario in the global market. Hence, the margins of the Centurion group are exposed to volatility in foreign exchange. Hence, it faces foreign exchange risk on account of currency fluctuations in the absence of any hedging mechanism.

#### **Rating Sensitivity**

- Deterioration in profitability margins.
- Significant decline in scale of operations
- Substantial deterioration in working capital operations

#### **Material Covenants**

None

#### **Liquidity position: Adequate**

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 9.60 crore for FY2020 as against Rs. 2.42 crore of repayment

obligations for the same period. The group has unencumbered cash and bank balances of only Rs. 4.39 crore as on 31st March 2020. Further, the fund-based working capital limits of Centurion Remedies Private Limited were utilized at an average of 88.86 per cent in the last six months ending February 2021. Therefore, there are enough net cash accrals & limits available to utilize more funds if required to support incremental working capital requirements. Acuité believes that Centurion group's liquidity will continue to remain adequate over the medium term on account of healthy net cash accrals to its maturing debt obligations and in absence of any debt-funded capex.

#### **Outlook: Stable**

Acuité believes that Centurion group will continue to benefit over the medium term on account of the group's established presence in the formulation industry and experienced management. The outlook may be revised to 'Positive' in case the group registers higher-than-expected revenues and cash accrals while demonstrating improvement in the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the group's business risk profile weakens resulting in lesser than expected revenues or profitability and lower-than-expected net cash accrals leading to significant stretch in the group's working capital cycle.

#### **About the Rated Entity - Key Financials (Consolidated)**

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	198.27	145.38
PAT	Rs. Cr.	6.39	3.51
PAT Margin	(%)	3.22	2.42
Total Debt/Tangible Net Worth	Times	1.84	2.60
PBDIT/Interest	Times	9.72	3.78

#### **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>
- Consolidation of Entities - <https://www.acuite.in/view-rating-criteria-60.htm>
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#### **Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

#### **Rating History (Up to last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
17-Aug-20	Cash Credit	Long term	5.00	ACUITE BBB-/Stable (Upgraded)
	Term Loan- I	Long term	3.00	ACUITE BBB-/Stable (Upgraded)
	Term Loan- II	Long term	2.10	ACUITE BBB-/Stable (Upgraded)
	Term Loan- III	Long term	1.28	ACUITE BBB-/Stable (Upgraded)
	Packing Credit	Short Term	0.80	ACUITE BBB-/Stable (Upgraded)
	Proposed Bank Facility	Long Term	2.50	ACUITE BBB- /Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Upgraded)

	Bank Guarantee	Short Term	2.50	ACUITE A3 (Upgraded)
28-May-19	Cash Credit	Long term	5.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan- I	Long term	4.02	ACUITE BB+/Stable (Reaffirmed)
	Term Loan- II	Long term	2.78	ACUITE BB+/Stable (Reaffirmed)
	Term Loan- III	Short Term	2.08	ACUITE BB+/Stable (Reaffirmed)
	Packing Credit	Long Term	0.80	ACUITE BB+/Stable (Reaffirmed)
	Letter of 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- I	Long term	4.02	ACUITE BB+/Stable (Reaffirmed)
	Term Loan- II	Long term	2.78	ACUITE BB+/Stable (Reaffirmed)
	Term Loan- III	Long term	2.08	ACUITE BB+/Stable (Assigned)
	Packing Credit	Long Term	0.80	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	2.50	ACUITE A4+ (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	5.00	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan- I	Not Available	9.00	Not Available	0.33	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan- II	Not Available	9.00	Not Available	0.24	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan- III	Not Available	9.00	Not Available	0.19	ACUITE A3 (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	0.79	ACUITE A3 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	(2.50)	ACUITE BBB- (Withdrawn)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Assigned)
Working Capital Term Loan	Not Available	Not Available	Not Available	1.21	ACUITE BBB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Reaffirmed)

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 <a href="mailto:aditya.gupta@acute.in">aditya.gupta@acute.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acute.in">rating.desk@acute.in</a>
Rohan Gambhir Rating Analyst - Rating Operations Tel: 011-49731313 <a href="mailto:rohan.gambhir@acute.in">rohan.gambhir@acute.in</a>	

### About Acuité Ratings & Research:

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