

Press Release

Samrat Remedies Limited

February 07, 2019



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 34.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) and reaffirmed the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 34.50 crore bank facilities of Samrat Remedies Limited (SRL). The outlook is '**Stable**'.

The rating upgrade mainly reflects expected improvement in scale of operations and profitability in FY2018. The revenues had increased to Rs.62.52 crore in FY2018 from Rs.54.97 crore in FY2017. Further, the operating margins had increased to 7.66 percent in FY2018 from 3.01 percent in FY2017. Acuité believes that the group will sustain the revenue growth while maintaining its financial risk profile and liquidity position over the medium term.

Samrat Remedies Limited (SRL), a Mumbai-based company incorporated in 2003 is engaged in the manufacture and export of fine chemicals and pharmaceuticals. The company is headed by Mr. Champak Parekh (Director).

Analytical Approach

Acuité has consolidated the business and financial risk profiles of the group companies, Samrat Remedies Limited and ZH Chemicals Private Limited, due to significant business and financial synergies among them. Hereinafter referred to as 'The group'. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

The group is managed by Mr. Champak Parekh (Director) who possess more than two decades of experience in the pharmaceutical industry. The group has long standing relationship with its clients and avails recurring demand from them.

- **Improvement in revenues and operating margins**

Revenues of the group had increased to Rs.65.52 crore in FY2018 from Rs.54.97 crore in FY2017. The operating margin of the group increased to 7.66 percent in FY2018 from 3.01 percent in FY2017. The operating margins have improved on account of decrease in the other manufacturing expenses incurred by the group. The group reported net profit of Rs.0.42 crore in FY2018 as against net loss of Rs.1.39 crore in FY2017.

Weaknesses

- **Weak financial risk profile**

The ratings are constrained by moderate net worth of the group at Rs.7.07 crore, while gearing stood stretched at 3.92 times as on 31 March, 2018. The total debt of Rs.21.39 crore includes term loan of Rs.3.46 crore, unsecured loan from director of Rs.8.48 crore and working capital borrowing of Rs.9.45 crore. Total outside Liabilities to Total Net Worth (TOL/TNW) stood at 6.33 times as on 31 March, 2018. Further, Interest Coverage Ratio (ICR) stood at 1.53 times and Debt Service Coverage Ratio (DSCR) stood at 1.23 times as on 31 March, 2018. Acuité believes that the improvement in the financial profile of the group would be a key sensitivity factor in the medium term.

- **Intensive working capital operations**

The group has intensive working capital operations marked by high Gross Current Assets (GCA) of 215 days in FY2018 as against 191 days in FY2017. The inventory and debtor levels stood at 95 and 84 days in FY2018 as against 82 and 70 days in FY2017, respectively. This has led to higher reliance on working capital borrowings, the cash credit limit has been utilised at around 85 to 90 percent during the last six months period ended December 2018.

Liquidity position

Samrat group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.0.77 to 2.04 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.92 to 1.47 crore over the same period. The cash accruals of the group are estimated to remain around Rs.2.59 to 4.54 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 2.50 to 1.31 Crore. The group's operations are working capital intensive as marked by gross current asset (GCA) days of 180 in FY 2018. This has led to high reliance on working capital borrowings, the cash credit limit in the group remains utilized at 85 to 90 percent during the last 6 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.0.23 crore as on March 31, 2018. The current ratio of the group stands at 1.22 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher than expected improvement in profit margins and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the group's profit margins and financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	65.52	54.97	63.13
EBITDA	Rs. Cr.	5.02	1.65	2.09
PAT	Rs. Cr.	0.42	-1.39	0.15
EBITDA Margin	(%)	7.66	3.01	3.31
PAT Margin	(%)	0.64	-2.53	0.24
ROCE	(%)	15.68	6.70	16.17
Total Debt/Tangible Net Worth	Times	3.03	2.81	1.88
PBDIT/Interest	Times	1.53	1.07	1.54
Total Debt/PBDIT	Times	3.65	5.80	6.11
Gross Current Assets (Days)	Days	180	158	136

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jan-2018	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Bills Discounting	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	9.00	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
	Letter of Credit	Short Term	22.00	ACUITE A4 (Reaffirmed)
17-Oct-2016	Cash Credit	Long Term	9.00	ACUITE BB- / Stable (Assigned)
	Letter of Credit	Short Term	22.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Assigned)
	Bills Discounting	Short Term	3.00	ACUITE A4 (Assigned)

*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	9.00	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A4 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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