

Press Release

Samrat Remedies Limited

October 22, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

SRL was incorporated in 2003 by Mr. Hitesh C. Parekh, Mr. Champak Parekh, Mrs. Sangeeta Parekh and Mrs. Saroj Parekh. The company is engaged in manufacturing of iodine derivatives and their supplies in the domestic and international market. Some of the products of the company include potassium iodide, sodium iodide, to name a few. The company has an installed capacity of 480 MT per annum. The products manufactured by SRL are used by pharmaceutical companies as intermediates in the manufacture of Active Product Ingredients (API).

The company is a part of the business group, hereinafter referred to as Samrat group (SG) comprising of Samrat Remedies Limited and ZH Chemicals Private Limited.

Analytical Approach

Acuité has consolidated business and financial risk profiles of Samrat Remedies Limited and ZH Chemicals Private Limited together referred to as the 'Samrat Group'. The consolidation is in view of the common management and significant operational and financial linkages. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and healthy revenue growth

SG is promoted by Mr. Champak Parekh (Director) and Mr. Hitesh C. Parekh (Director) along with others. The promoters of the group have been engaged in the chemical industry for more than two decades. The extensive experience of the promoters has helped in maintaining relationships with its customers and suppliers, which has led to healthy growth revenue profile. The operating income of the group stands at Rs.89.04 crore in FY2019 as against Rs.65.52 crore in FY2018 registering a growth of around 36 percent Y-O-Y. Further, the group has registered an operating income of around Rs.97.70 crore (Provisional) for FY2020. Acuité believes that the group will benefit from the experience of the management and established track record in the aforementioned industry.

Weaknesses

• Working Capital intensive nature of operations

SG's operations remained working capital intensive in nature as reflected by its gross current asset (GCA) days of around 127 days as on March 31, 2020 (Provisional) as against 139 days in the previous year. There is a significant improvement in the GCA days however the cycle still remains to be intensive on account of the inventory days standing at 54 days in FY2020 (Provisional) as against 75 days in FY2019. The debtor collection period of the group is around 37 days for FY2020 (Provisional) as against 35 days in the previous year. In addition to the above, the creditor payback period of SG

stands high at 59 days in FY2020 (Provisional). Acuite expects the operations of the group to remain working capital intensive on account of high inventory level maintained by the group.

• **Profit margins susceptible to volatility in raw material prices**

The operating margins of the group are highly depended on raw material prices and have declined in FY2020 (Provisional) to 4.18 percent from 5.61 percent in FY2019 and 7.66 percent in FY2018. Since raw material price depends upon various factors such as global prices as the group imports around 80 percent of their raw materials from overseas and other dominant factor being the bargaining power of the group with suppliers thus the profitability is directly impacted by the change in any of these dynamics. Further, the group operates in an industry with limited entry barriers causing intense competition.

Rating Sensitivity

- Significant improvement in the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile and improvement in working capital intensity.
- Deterioration in working capital or any major debt-funded capex

Outlook: Stable

Acuite 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.

Liquidity position: Adequate

SG has adequate liquidity, marked by average net cash accruals to maturing debt obligations. The group generated cash accruals of Rs. 1.55 crore in FY2019 as against maturing debt obligations of Rs. 0.90 crores during the same period. The cash accruals of the group are estimated to remain around Rs.1.53 crore to Rs.1.40 crore during 2020-22 against repayment obligations ranging from Rs. 0.68 crores to Rs. 0.46 crores during the same period. The group's working capital operations is intense, marked by the Gross Current Asset (GCA) days of 139 days for FY2019. The company maintains unencumbered cash and bank balances of Rs.0.16 crore as on 31 March 2019. The current ratio stands at 0.96 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate net cash accruals to no debt repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	97.70	89.04
PAT	Rs. Cr.	0.25	0.11
PAT Margin	(%)	0.25	0.12
Total Debt/Tangible Net Worth	Times	3.42	3.25
PBDIT/Interest	Times	1.38	1.43

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

None.

Any other information

Not Applicable

Any Material Covenants

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 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 Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Apr-2020	Cash Credit	Long Term	9.00	ACUITE BB-/ Stable (Reaffirmed)
	Letter of Credit	Short Term	22.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Bill discounting	Short Term	3.00	ACUITE A4 (Reaffirmed)
07-Feb-2019	Cash Credit	Long Term	9.00	ACUITE BB-/ Stable (Upgraded from ACUITE B+/ Stable)
	Letter of Credit	Short Term	22.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Bill discounting	Short Term	3.00	ACUITE A4 (Reaffirmed)
04-Jan-2018	Cash Credit	Long Term	9.00	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
	Letter of Credit	Short Term	22.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Bill discounting	Short Term	3.00	ACUITE A4 (Reaffirmed)

***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 (Reaffirmed)
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)
Bill discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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