

Press Release

Synekromax Biotech Private Limited

25 April, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs.16.40 Cr.
Long Term Rating	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)

*Refer Annexure for details

Rating Rationale

SMERA has downgraded the long term rating on the Rs.16.40 crore bank facilities of Synekromax Biotech Private Limited (SBPL) to '**SMERA B+**' (**read as SMERA B plus**) from '**SMERA BB-**' (**read as SMERA double B minus**). The outlook is '**Stable**'.

The downgrade is in view of the continuous decline in net cash accruals. The same is expected to be below the initial expectation over the near to medium term. The downgrade in rating also factors in the liquidity pressures emanating from a stretched operating cycle.

The ratings continue to draw comfort from the established presence and extensive experience of the management in the enzyme manufacturing business. The rating also factors in the moderate financial risk profile of the company. However, the aforementioned strengths are partially offset by the small scale of operations, stretched operating cycle, susceptibility of profitability to volatility in raw material prices and foreign exchange fluctuation risk.

SBPL was incorporated in 2009 by Mr. C. V. Seshadri, Mr. V. Subramaniam and Mr. Aravind Kumar Chandak at Chennai. The company is engaged in the manufacture and trading of enzymes used in leather, pharma, food, paper among others. It derives around 60 percent revenue from manufacturing and remaining from trading. SBPL's registered office and manufacturing facility are located at Porur and Chennai. The company largely caters to tanneries in Ranipet, Kannur, Coimbatore to name a few.

Key rating drivers

Strengths

Established track record of operations and experienced promoters

The company is engaged in the manufacturing and trading of enzymes for a decade. These are used in the textile, leather, poultry industries. The promoters collectively possess more than three decades of experience in the aforementioned. Mr. C. V. Seshadri, Director, has experience of around 35 years in the pharmaceutical industry. The extensive position and experience has helped the company maintain long term relations with reputed customers including Radico NV Distilleries Maharashtra Limited, SKM Animal Feeds and Foods (India) Limited, Kokilaben Dhirubhai Ambani Hospital & Medical Research Institute and Apollo Hospitals.

SMERA believes that going forward, the company will continue to benefit from the extensive experience of the promoters and established presence in the pharmaceutical and life sciences industry.

Weaknesses

Small scale of operations

The scale of operations is small with operating income of Rs.22.24 crore in FY2016-17 as against Rs.21.08 crore in the previous year. The moderate growth in FY2017 is due to slowdown in orders from customers on account of demonetisation and cyclone in Chennai. The net cash accruals stood at Rs.0.64 crore for FY2017 as against Rs.0.67 crore in the previous year inspite of improvement in operating margin from 5.72 percent in FY2016 to 7.96 percent in FY2017. The decline in net cash accruals is due to high interest outgo during FY2017 as compared to the previous year. Further, SMERA reported operating income of around Rs.17.00 crore for the period April,

2017 to January, 2018.

Average financial risk profile

The financial risk profile is average marked by adjusted tangible networth of Rs.8.99 crore as on 31 March, 2017 as against Rs.8.39 crore in the previous year. The debt-to-equity ratio stood at 1.52 times as on 31 March, 2017 as compared to 1.35 times in the previous year. For arriving at the rating, unsecured loan of Rs.3.83 crore as on 31 March, 2017 is treated as quasi-equity as the same is subordinated to bank debt. The total debt of Rs.13.69 crore as on 31 March, 2017 includes long term borrowings of Rs.9.33 crore and short term borrowings of Rs.4.36 crore. The coverage ratio is inadequate at 1.50 times for FY2017 as against 1.99 times in the previous year. The Debt Service Coverage Ratio (DSCR) stood at 1.14 times for FY2017 as against 1.04 times in the previous year. The return on capital employed stood at 7.37 percent for FY2017 compared to 7.01 percent in the previous year. The total outside liabilities to tangible networth stood at 2.31 times as on 31 March, 2017 and 2.18 times in the previous year.

Working capital intensive operations with stretched liquidity position

The operations continued to remain working capital intensive with Gross Current Asset (GCA) days at 216 for FY2017 and 287 for FY2016. The stretched GCA days are on account of stretched debtor days of 124 for FY2017 as against 162 in the previous year. The high GCA days are also on account of the high amount of security deposits maintained by the company. Further, the liquidity position of the company is stretched with average cash credit limit utilisation of 100 percent for the last six months ended 31 December, 2017.

Margins are vulnerable to volatility in raw material prices and foreign exchange fluctuation risk

The margins are susceptible to volatility in raw material (enzymes) prices. The raw material cost constituted around 56 percent for FY2017 as against 66 percent for FY2016. Imports from China constitute around 18 percent. Hence, margins are susceptible to volatility in foreign exchange rates in the absence of adequate hedging mechanism. The company reported improvement in operating profitability from 5.72 percent for FY2016 to 7.96 percent in FY2017.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Synkromax Biotech Private Limited for arriving at the rating.

Outlook: Stable

SMERA believes that SBPL will maintain a 'Stable' outlook in the medium term on account of its established track record and experienced promoters in the healthcare industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and net cash accruals while effectively managing its operating cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or liquidity position due to higher than expected working capital borrowings.

Applicable Criteria

- Manufacturing Entities-<https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

About the Rated Entity -Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	22.24	21.08	21.02
EBITDA	Rs. Cr.	1.77	1.20	1.40
PAT	Rs. Cr.	0.30	0.44	0.70
EBITDA Margin	(%)	7.96	5.72	6.66
PAT Margin	(%)	1.35	2.10	3.35
ROCE	(%)	7.37	7.01	13.60
Total Debt/Tangible Net Worth	Times	1.52	1.35	0.68
PBDIT/Interest	Times	1.50	1.99	2.28
Total Debt/PBDIT	Times	7.21	8.40	3.20
Gross Current Assets (Days)	Days	216	287	208

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

CRISIL in its press release dated 12 March, 2018 had inter-alia mentioned the following: 'CRISIL has been consistently following up with Synkromax Biotech Private Limited (SBPL) for obtaining information through letters and emails dated January 19, 2017 and February 09, 2017 apart from telephonic communication. However, the issuer has remained non cooperative.

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
5 Dec, 2016	Cash Credit	Long Term	4.00	SMERA BB-/Stable (Assigned)
	Term Loan I	Long Term	1.14	SMERA BB-/Stable (Assigned)
	Term Loan II	Long Term	5.98	SMERA BB-/Stable (Assigned)
	Term Loan III	Long Term	1.60	SMERA BB-/Stable (Assigned)
	Term Loan IV	Long Term	1.65	SMERA BB-/Stable (Assigned)
	Proposed Long Term	Long Term	2.03	SMERA BB-/Stable (Assigned)
12 Mar, 2018	Cash Credit	Long Term	4.00	SMERA BB-/Stable Issuer not co-operating*
	Term Loan I	Long Term	1.14	SMERA BB-/Stable Issuer not co-operating*
	Term Loan II	Long Term	5.98	SMERA BB-/Stable Issuer not co-operating*
	Term Loan III	Long Term	1.60	SMERA BB-/Stable Issuer not co-operating*
	Term Loan IV	Long Term	1.65	SMERA BB-/Stable Issuer not co-operating*
	Proposed Long Term	Long Term	2.03	SMERA BB-/Stable Issuer not co-operating*

*The issuer did not co-operate; Based on best available information.

***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	4.75 (enhanced from Rs.4.00 crore)	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	0.77 (reduced from Rs.1.14 crore)	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	5.32 (reduced from Rs.5.98 crore)	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	1.04 (reduced from Rs.1.60 crore)	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Term Loan IV	Not Applicable	Not Applicable	Not Applicable	1.44 (reduced from Rs.1.65 crore)	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	3.08	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)

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ABOUT SMERA

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