

Press Release

SK Age Exports

March 02, 2017

Rating Assigned

Total Instruments Rated*	Rs. 18.50 Cr
Short Term Rating	SMERA A2

*Refer Annexure for details

Rating Rationale

SMERA has assigned rating of '**SMERA A2**' (**read as SMERA A two**) on the Rs. 18.50 crore bank facilities of SK Age Exports.

SKHL, established in 1996, manufactures antimalarial drugs and active pharmaceutical ingredients (API) while SKAE established in 1990, is engaged in the trading and export of formulations and active pharmaceutical ingredients (API).

Key Rating Drivers

Strengths

- **Long operation track record and experienced management**

The promoters Mr. Bharat Shah Mr. Samir Shah and Mr. Lalit Shah are third generation entrepreneurs with over two decades of experience in the pharma sector.

- **Healthy profitability**

The S K Group has healthy profitability with operating margin of 26.86 per cent in FY2016 as compared to 25.03 per cent in FY2015. The PAT margin stood at 12.80 per cent in FY2016 as compared to 11.38 per cent in FY15.

- **Strong financial risk profile**

The financial risk profile is marked by healthy net worth and low gearing. The net worth stood at Rs. 51.56 cr as on March 31 2016 as compared to Rs. 44.21 cr as on March 31 2015. The gearing (debt-to-equity) stood at 0.52 times as on March 31 2016 as compared to 0.65 times as on March 31, 2015. The total debt mainly consists of working capital borrowings and unsecured loans from promoters.

- **Healthy liquidity position**

The S K group has healthy liquidity position with NCA/TD of 0.90 times in FY2016 as compared to 0.80 times in FY2015. The group has no long term debt obligation and has no debt funded capex plans for the near future. The unencumbered cash and bank balance stood at Rs.13.15 cr as on March 31, 2016.

- **Comfortable working capital cycle**

The working capital cycle has been comfortable at 57 days in FY2016 as compared to 36 days in FY2015. The bank limits are also underutilised. The gross current assets are high at 204 days in FY2016.

Weaknesses

- **Decline in revenues - Y-O-Y**

The revenue declined to Rs.148.36 cr in FY2016 as compared to Rs. 156.60 cr in FY2015 and Rs. 160.86 cr in FY2014 mainly on account of decline in sales realisations. However, for 8M FY2017, SKHL achieved net sales of Rs. 83.61 cr as compared to Rs. 53.16 cr for the same period in the previous year. SKAE achieved net sales of Rs. 57.21 cr as compared to Rs.39.73 cr for the same period last year.

- **Regulatory risks in the domestic and export market**

The S K group is exposed to regulatory risk in the domestic market as also in countries to which it exports. However, the same is mitigated to an extent since it has been dealing with these countries for the last 21 years.

- **Susceptibility of profitability to volatility in raw material prices and forex rates**

The group's profitability is susceptible to volatility in raw material prices and forex rates. The group exports over 90 percent of its output to Denmark, Ghana, Uganda, Singapore among others. While it hedges part of its forex exposure, it is exposed to fluctuations in currency for the unhedged exports.

Analytical Approach

SMERA has taken a consolidated view of S Kant Health Care Private Limited (SKHL) and S K Age Export (SKAE) hereinafter referred to as the S K Group owing to the strong operational and financial linkages between the two entities and common management.

Outlook:

Not Applicable

About the Group

Established in 1996 by Mr. Bharat Shah and Mr. Samir Shah, SKHL is part of the SK Group. The company manufactures antimalarial drugs and active pharmaceutical ingredients (API). The registered office is located at Worli, Mumbai while the manufacturing unit is at Vapi, Gujarat.

SKAE, a trading firm established in 1990 by Mr. Bharat Shah and Mr. Samir Shah is engaged in the export of formulations and active pharmaceutical ingredients (API).

About the Rated Entity - Key Financials

For FY2015-16, the S K group reported net profit after tax (NPAT) of Rs.19.00 cr on operating income of Rs. 148.36 cr as compared to NPAT of Rs. 17.82 cr on operating income of Rs. 156.60 cr in FY2014-15. The tangible net worth stood at Rs. 51.56 cr in FY2015-16 as against Rs. 44.21 cr in FY2014-15.

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

ICRA has suspended the rating vide release dated August 08, 2016 due to inability to carry out rating surveillance in the absence of the requisite information from the company

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	7.50*	SMERA A2
Bills Purchase	Not Applicable	Not Applicable	Not Applicable	7.50#	SMERA A2
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A2
Import Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A2
Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A2
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A2

includes sublimit of direct bills Rs. 2.25 crore and packing credit of Rs. 3.50 crore
** includes sublimit of packing credit of Rs. 3.50 crore*
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ABOUT SMERA

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