

Press Release

SK Age Exports

June 02, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 18.50 Cr.
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed short term rating of '**ACUITE A2**' (**read as ACUITE A two**) on the Rs. 18.50 crore bank facilities of SK Age Exports. The outlook is '**Stable**'.

The Mumbai based S K Age Exports (SKAE), incorporated in 1990, is part of S K Group established in 1932 by Mr. Sevantilal K. Shah. The company is engaged in the trading of anti-malarial drugs and active pharmaceutical ingredients (API) .SKAE primarily exports to USA, UK and African countries like Ghana, Tanzania and Nigeria among others. The day to day operations are managed by Mr. Bharat Shah and Mr. Samir Shah.

Established in 1932, the SK Group consists of S Kant Healthcare Limited (SKHL) and S K Age Export (SKAE). The group specialises in the business of pharmaceuticals. SKHL manufactures antimalarial drugs and active pharmaceutical ingredients (API) at Vapi, Gujarat. SKAE was established in 1990 by Mr. Bharat Shah and Mr. Samir Shah and is into trading and exporting of formulations and active pharmaceutical ingredients (API).

The rating has been reaffirmed in view of company's healthy profitability, strong financial risk profile, sound liquidity position and comfortable working capital cycle. However, the ratings are constrained by the uneven revenues, regulatory risk in domestic and export market and susceptibility of profitability to volatility in raw material prices and forex rates.

Key Rating Drivers

Strengths

- **Comfortable financial risk profile :**

The financial risk profile of S K Group is above average marked by net worth of Rs 52.36 Crore in FY2017 as against Rs 51.35 Crore in the preceding year. The net worth levels have been maintained despite withdrawal of capital amounting to Rs 7.51 Crore in FY2017 from SKAE. The gearing (debt to equity) remained comfortable at 0.59 percent as on March 31st, 2017 as compared to 0.52 percent as on March 31st, 2016. The total debt outstanding of the group consists of short term borrowings of Rs.18.78 Crore and unsecured loans from related parties of Rs 12.29 Crore as on March 31st 2017. Further, the short term borrowings comprise of loans from affiliates and group companies amounting to Rs 11.05 Crore with the remaining being bank borrowings. The group exhibits robust debt protection measures as reflected by interest coverage ratio (ICR) of 12.09 times and debt servicing coverage ratio of 9.11 times in FY2017. The net cash accrual to debt remained healthy at 0.81 times in FY2017 as against 0.90 times in FY2018. ACUITE believes that going forward the group will maintain healthy financial risk profile in absence of any debt led capital expenditure.

- **Healthy liquidity position:**

S K Group's liquidity position is comfortable with moderate average bank utilization (65~70 percent in the last 6 months ending April 2018) and healthy cash generation against no repayment obligations. The net cash accruals of the group stood at Rs. 25.24 Crores in FY2017 as against Rs. 23.89 Crores in the previous year. Further, the liquidity profile draws

comfort from availability of liquid funds (unencumbered cash and bank balance of Rs 14.56 Crore in FY2017 as against 13.15 Crore in FY2016).

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

The group has an established track record of more than five decade in pharmaceutical industry. The promoters, Mr. Bharat Shah, Mr. Samir Shah and Mr. Lalit Shah are third generation entrepreneurs and have over two decades of experience in the pharmaceutical sector.

Weaknesses

- **Uneven growth in revenue profile; decline in profitability**

The group registered healthy revenue growth of 19.06 percent in FY2017. The operating revenue increased to Rs 176.64 Crore in FY2017 from Rs 148.36 Crore in FY2016 mainly driven by expansion to new markets including Nigeria and European markets. However, the group's revenue registered a significant decline in FY2018 (provisional). SKHL (the manufacturing arm of SK Group) registered a revenue of Rs 137.08 Crore in FY2018 as against 139.13 Crore in FY2017. SKAE, the trading arm of SK Group, registered significant decline from Rs 83.69 Crore in FY2017 to Rs 59.56 Crore in FY2018. This was mainly on account of rollout of GST and inability to execute pending orders.

The net profit margins declined to 21.08 percent in FY2017 as against 26.86 percent in FY2016 due to increase in raw material cost and selling expense incurred. The net profit margins moderated to 11.66 percent in FY2017 as against 12.80 percent in FY2016. Going forward, the group's ability to scale up operations sustainably and maintain its profitability would be a key rating sensitivity.

- **Susceptibility of profitability to volatility in raw material prices and regulatory risk**

The group's profitability is susceptible to volatility in raw material prices and foreign exchange rates. The group exports over 90 percent of its output to Denmark, Ghana, Uganda, and Singapore among others. However the same is mitigated by selectively hedging its risk exposure. Further, the group is also exposed to the regulatory risk associated with export of medical drugs to USA, UK and African countries among other.

Analytical Approach

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

Outlook: Not Applicable

About the Group

Established in 1932, the SK Group consists of S Kant Healthcare Limited (SKHL) and S K Age Export (SKAE). The group specialises in the business of pharmaceuticals. SKHL manufactures antimalarial drugs and active pharmaceutical ingredients (API) at Vapi, Gujarat. SKAE was established in 1990 by Mr. Bharat Shah and Mr. Samir Shah and is into trading and exporting of formulations and active pharmaceutical ingredients (API).

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	176.64	148.36	156.60
EBITDA	Rs. Cr.	37.23	39.84	39.20
PAT	Rs. Cr.	20.60	19.00	17.82
EBITDA Margin	(%)	21.08	26.86	25.03
PAT Margin	(%)	11.66	12.80	11.38
ROCE	(%)	40.44	46.80	94.36

Total Debt/Tangible Net Worth	Times	0.59	0.52	0.66
PBDIT/Interest	Times	12.09	6.06	4.73
Total Debt/PBDIT	Times	0.83	0.66	0.72
Gross Current Assets (Days)	Days	178	203	196

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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
02-Mar-2017	Bills Discounting	Short Term	INR 7.5	ACUITE A2
	Bills Discounting	Short Term	INR 7.5	ACUITE A2
	Bank Guarantee	Short Term	INR 1	ACUITE A2
	Letter of Credit	Short Term	INR 1	ACUITE A2
	Letter of Credit	Short Term	INR 1	ACUITE A2
	Bank Guarantee	Short Term	INR 0.5	ACUITE A2

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITÉ A2
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITÉ A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITÉ A2
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITÉ A2

Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITÉ A2
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITÉ A2

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