Press Release

Sudarshan Pharma Industries Limited

October 05, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' **(read as SMERA B)** on the Rs. 10.00 crore bank facilities of Sudarshan Pharma Industries Limited. The outlook is **'Stable'**.

Sudharshan Pharma Industries Limited (SPIL) was incorporated in 2008. The Mumbai based company was promoted by Mr. Hemal Vasantbhai Mehta, Mr. Sachin Vasantbhai Mehta and Mrs. Devangi Sachin Mehta. The company is engaged in trading and contract manufacturing of chemicals, intermediates and API. The company has also ventured into formulations of pharmaceutical products under the brand name 'Sudarshan'. The company is now venturing into ethical marketing of pharma products.

Key Rating Drivers

Strengths

- **Experienced management**

  The promoters, Mr. Hemal Mehta, Mr. Sachin Mehta and Mrs. Devangi Sachin Mehta have experience of over a decade in the pharmaceutical industry.

- **Healthy growth in revenues**

  SPIL registered healthy operating income growth of ~57 percent in FY2016-17 over the previous year. The operating income stood at Rs.59.50 crore in FY2017 (Provisional) compared to Rs.37.85 crore in FY2016 and Rs.23.18 crore in FY2015. The growth in operating income is on account of new product development and increase in order book value. For the period April 2017 to August 2017, SPIL reported revenue of ~Rs. 24.02 crore.

Weaknesses

- **Thin profitability margins**

  The operating margins are thin due to the high gestation period and product development cost. The EBIDTA margins stood at 1.36 percent for 11MFY2017 (Provisional) compared to 0.89 percent for FY2016. The PAT margin stood at 0.67 percent for 11MFY2017 (Provisional) compared to 0.25 percent in FY2016.

- **Debt funded capex**

  The company plans to set up its own formulation and manufacturing facility in Wada,Thane at a total cost of Rs.6.00 crore to be financed through term loan of Rs.4.20 crore and promoter's capital of Rs.1.80 crore. The manufacturing facility will be constructed in a phased manner. As indicated by the management, the firm expects to start operations in FY2018. Also, the company is in the process of buying an existing manufacturing facility (transaction expected to be completed by November 2017), in Khopoli, Maharashtra.The total cost of acquisition is ~Rs.7.00 crore to be funded through a term loan of ~Rs.4.00 crore and the rest through promoters fund. Currently, the company manufactures its products on contract manufacturing basis from three units located at Gullarwala, Kala Amb and Tahliwal, Himachal Pradesh. Of the three units, select processes are expected to be shifted to the new manufacturing facility at Wada and Khopoli. Any delay in commencement and stabilisation of operations is likely to impact the financial and business risk profile of the company.

- **Moderate financial riskprofile**

  The financial risk profile is moderate marked by moderate net worth of Rs.5.56 crore as on 18th February 2017 (Provisional) supported by quasi capital of Rs.2.38 crore subordinated to bank debt. The gearing (debt to equity) stood at 0.38 times as on 18th February 2017 (Provisional) as compared to 7.33 times as on 31 March 2016. The total debt mainly includes NBFCs - loans to the tune of Rs.2.10 crore. The interest coverage ratio (ICR) stood at 2.23 times for 11MFY2017 (Provisional) as compared to 1.72 times for FY2016. Further, the debt funded capex is likely to put downward pressure on debt protection metrics.

- **Moderate working capitaloperations**

  The working capital operations are moderate with Gross Current Assets (GCAs) of 101 for 11MFY2017 as compared to 73 days in FY2016. This is on account of receivable periods of 65 in 11MFY2017 as compared to 63 days in FY2016. Further, the average working capital utilisation has bee ~90 percent in the last six months ended June, 2017.

- **Regulatory risks in the domesticmarket**

  SPIL is exposed to regulatory risk in the domestic market. However, the same is mitigated to an extent since it has been dealing with these countries for the last 25 years.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the company to arrive at the rating.

Outlook: Stable

SMERA believes that SPIL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profitabiliy, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2015-16, the company registered profit after tax (PAT) of Rs.0.09 crore on operating income of Rs.37.85 crore as against net profit after tax of Rs.0.01 crore on operating income of Rs.23.18 crore in the previous year. The net worth stood at Rs.0.27 crore as on 31 March, 2016 compared to Rs.2.51 crore as on 31 March, 2016.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B / Stable

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ABOUT SMERA

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