



## Press Release

### SUDARSHAN PHARMA INDUSTRIES LIMITED

October 25, 2018

#### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs. 10.00 Cr.
<b>Long Term Rating</b>	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE B/Stable)

\* Refer Annexure for details

#### Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from long term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs. 10.00 crore bank facilities of SUDARSHAN PHARMA INDUSTRIES LIMITED (SPIL). The outlook is '**Stable**'.

The upgrade is in the view of Y-o-Y revenue growth on account of additional revenues registered from trading of specialty chemicals. The operating income stood at Rs.89.49 crore in FY2018 as compared to Rs.55.07 crore in FY2017 and Rs.37.85 crore in FY2016. Further, the total outside liabilities to total net worth ratio (TOL/TNW) improved remarkably to 5.23 times as on March 31, 2018 from 29.13 times as on March 31, 2017. This is on account of infusion of funds by the promoters to the tune of Rs.4.59 crore in FY2018.

SPIL was incorporated in 2008. The Mumbai-based company is promoted by Mr. Hemal Vasantbhai Mehta, Mr. Sachin Vasantbhai Mehta and Mrs. Devangi Sachin Mehta. The company is engaged in trading, indenting and contract manufacturing of specialty chemicals, intermediates and Active Pharmaceutical Ingredients (API). The company has also ventured into manufacturing of finished formulations (contract manufacturing) of pharmaceutical products under the brand name 'Sudarshan'. Further, SPIL also ventured into ethical marketing of pharma products since 2016.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profile of SPIL to arrive at the rating.

#### Key Rating Drivers

##### Strengths

- **Experienced management with healthy growth in revenues**

The promoters have experience of over a decade in the pharmaceutical industry. The longstanding experience of the promoters has helped them to build good relations with its customers reflected through a healthy revenue growth rate. The company recorded revenues of Rs.89.49 crore in FY2018 as compared to Rs.55.07 crore in FY2017 reflecting a healthy compounded annual growth rate (CAGR) of ~40.00 percent in the last 4 years. Further, the company has booked revenue of ~Rs.60.00 crore from April 2018 to September 2018.

- **Reputed customer and supplier base**

SPIL's customers include Sun Pharma, FDC, Sandoz, Lupin, Jubilant, Cipla to name a few. Further, it carries out contract manufacturing for reputed brands such as Ranbaxy, Sandoz, DuPont, among others. Acuite believes that the company's long term relations with its customers and suppliers will help in generating a steady growth in revenues.

##### Weaknesses

- **Moderate financial risk profile**

SPIL has moderate financial risk profile marked by moderate net worth of Rs.8.52 crore as on March 31, 2018 against Rs.3.20 crore as on March 31, 2017. The gearing stood at 1.23 times as on March 31, 2018 as against 1.80 times as on March 31, 2017. The leverage and coverage ratios continue to remain moderate. The interest coverage ratio (ICR) stood at 1.85 times for FY2018 as against 1.76 times for FY2017. Net cash accruals are low at Rs.0.80 crore in FY2018. Total outside liabilities to tangible net worth has improved and stood at 2.63 times as on 31 March, 2018 (PY: 5.23 times).

• **Moderate working capital operations**

SPIL's working capital is moderate marked by a Gross Current Assets (GCA) of 101 days in FY2018. The company maintains finished goods inventory of around 28-30 days. SPIL extends credit period of around 70-90 days to its customers depending on the length of relationship with its customers. On the other hand, the company gets a credit period of around 50-60 days from its suppliers. The company generated cash accruals of Rs.1.89 crore cumulatively over the last four years through 2018, on the other the incremental working capital requirements and routine capex amounted to ~Rs.12.81 crore, leading to higher reliance on external debt which is visible through the average utilisation of working capital limits which stood at ~99 percent when the limits stood at Rs.6.00 crore. The limits have been enhanced to Rs.11.00 crore from November, 2018.

• **Regulatory risks in the domestic market**

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.

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**Outlook: Stable**

Acuite believes that SPIL will maintain '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, profitability, or deterioration in the financial risk profile and liquidity position.

**About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	89.49	55.07	37.85
EBITDA	Rs. Cr.	2.00	0.69	0.34
PAT	Rs. Cr.	0.74	0.15	0.09
EBITDA Margin	(%)	2.24	1.24	0.89
PAT Margin	(%)	0.82	0.28	0.25
ROCE	(%)	15.88	12.18	32.11
Total Debt/Tangible Net Worth	Times	1.23	1.80	7.33
PBDIT/Interest	Times	1.85	1.76	1.72
Total Debt/PBDIT	Times	4.60	7.57	5.18
Gross Current Assets (Days)	Days	101	120	77

**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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
05-Oct-2017	Cash Credit	Long Term	6.00	ACUITE B / Stable
	Proposed Long Term Loan	Long Term	4.00	ACUITE B / Stable

**\*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	10.00	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)

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**About Acuité Ratings & Research:**

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