Press Release

Pharmalab India Private Limited

21 December, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs. 13.10 Cr
Long Term Rating	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Short Term Rating	SMERA A3 (Upgraded from SMERA A4+)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long-term rating to **'SMERA BBB-' (read as SMERA triple B minus) from 'SMERA BB+' (read as SMERA double B plus)** on the Rs.9.00 crore bank facility of Pharmalab India Private Limited (PIPL) and the short-term rating to **'SMERA A3' (read as SMERA A three)** from **'SMERA A4+' (read as SMERA A four plus)** on the Rs. 4.00 crore bank facility. Further, SMERA has also assigned long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** on the Rs.0.10 crore bank facilities. The outlook is **'Stable'.**

The upgrade is driven by the continued improvement in business risk profile which is expected to be sustained over the near to medium term. The revenue grew from Rs. 69.51 crore in FY2016 to Rs. 81.99 crore in FY2017 while maintaining stable profitability and comfortable liquidity position. SMERA believes that going forward the company will sustain growth in revenue and profitability margins over the near future.

The ratings continue to draw comfort from the experienced management, established presence in the pharmaceutical machinery and equipment manufacturing industry, improvement in revenue alongwith stable margins and comfortable financial risk profile. However, the aforementioned strengths are partially offset by the working capital intensive nature of operations and exposure to intense competition and cyclicality in the capital goods industry.

PIPL (the erstwhile Pharmalab Process Equipments Private Limited), a Mumbai-based company incorporated in 2006 was promoted by the Mumbai-based Mr. Parikh, Mr Shah and their respective families. The day-to-day operations are led by Mr. Nitin P Shah, Mr. Karnik K Parikh and Mr. Umesh Purshotam Shah. PIPL is engaged in the designing, manufacturing, installation and commissioning of fabricated stainless steel process and packaging equipments used in various industries including pharmaceuticals, foods & beverages and breweries. The pharmaceutical industry contributed around 75 percent of the company's revenue in FY2017. PIPL has three ISO certified manufacturing units in Gujarat. The company procures raw material i.e. steel and iron from local suppliers and also imports from the overseas market. It caters to reputed clients in the domestic as well overseas markets.

List of key rating drivers and their detailed description

Strengths:

Established presence in the pharmaceutical and experienced promoters

PIPL is part of the pharmaceutical machinery and equipment manufacturing industry for over a decade. The established presence of the company has helped it acquire and maintain long standing relations with reputed customers and receive repeat orders. The company also exports around 35 percent of its revenue to countries including Africa, South East Asia and Middle East. The company caters to reputed clientele including Aurobindo Pharma Limited, Biological E. Limited, Cadila Healthcare Limited, Dr. Reddy`s Laboratories Limited among others. The company also benefits from the extensive experience of its promoters (i.e. Mr. Shah and family) who possess more than four decades of experience in the machinery and equipment manufacturing business. Going forward, SMERA believes that the company would maintain a stable business risk profile on account of its established presence and extensive experience of the promoters.

Improvement in revenue alongwith stable margins

PIPL has reported healthy revenue growth of around 18 percent with operating income of Rs. 81.99 crore for FY2017 as against Rs. 69.51 crore in the previous year. The healthy growth can be attributed to the robust flow of orders from the pharmaceutical industry. Further, the growth in revenue was mainly driven by the steriliser equipment division which contributed around ~28 percent of total sales in FY2017 as against ~12 percent in the previous year. The revenue growth is also supported by revenue from trading which contributed around 18 percent in FY2017. The company reported Rs. 44.19 crore (Provisional) during April, 2017 to October, 2017 and has unexecuted order book of Rs. 26.50 crore (manufacturing) and Rs.33.00 crore (trading) expected to be completed by March, 2018. PIPL has also reported stable profit margins with EBITDA margin of 12.60 percent for FY2017 as against 12.18 percent in the previous year. Going forward, SMERA believes that the company will maintain moderate growth in revenue and stable margins on the back of repeat orders from customers.

Comfortable financial risk profile

The financial risk profile is comfortable marked by total tangible networth of Rs.22.73 crore as on 31 March, 2017 as against Rs. 17.86 crore in the previous year. The gearing stood at 0.80 times as on 31 March, 2017 as against 1.05 times in the previous year. The total debt of Rs.18.13 crore as on 31 March, 2017 includes long term borrowings of Rs.0.18 crore, interest bearing unsecured loan from related parties of Rs.9.08 crore and short term borrowings of Rs.8.79 crore. The coverage indicators are comfortable as the interest coverage ratio (ICR) stood at 4.71 times for FY2017. The net cash accruals to total debt (NCA/TD) stood at 0.32 times in FY2017 as against 0.26 times in the previous year. The company registered total outside liabilities to tangible networth (TOL/TNW) of 1.76 times as on 31 March, 2017 as against 2.15 times in the previous year. Going forward, the company plans to undertake major debt funded capex of Rs. 7.00 crore to be funded by term loan of Rs.5.00 crore and the rest through internal accruals of Rs.2.00 crore. In view of the robust plough back of profits, the major debt funded capex plan is not expected to have significant impact on the company's financial risk profile.

Weaknesses

Working capital intensive operations

The operations of the company are working capital intensive with Gross Current Asset (GCA) days of 211 for FY2017 as against 219 days in the previous year. The stretched GCA days are on account of long inventory days and debtor days of 106 and 64 respectively for FY2017. The inventory mainly includes work-in-process due to long gestation in order execution. Around 53 percent of the debtors as on 31 March, 2017 are outstanding for more than six months. The company expects to realise these receivables in a phased manner since clients are mostly reputed companies who have being dealing with PIPL for a long time. The high GCA days are also driven by high amounts of cash and bank balances of Rs. 7.70 crore and other current assets of Rs. 6.50 crore as on 31 March, 2017. The working capital cycle stood at 124 days for FY2017 as against 96 days in the previous year. However, the liquidity position continues to remain comfortable with average cash credit limit utilisation of ~72 percent for the last six months ended 31 October, 2017. The net cash accruals stood at Rs.5.82 crore for FY2017 as against debt obligation of Rs. 0.14 crore.

Intense competition and cyclicality in the capital goods industry
PIPL faces intense competition from organised and unorganised players in the capital goods industry. Further, the capital goods industry is cyclical in nature and depends on the investment cycle in the end user industries. In the event of slowdown in orders, execution or postponement of the same from customers can result in elongation of the working capital cycle.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the company for arriving at the rating.

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

Outlook: Stable

SMERA believes that the company would continue to maintain a Stable outlook over the medium term owing to the extensive experience of the promoters and established presence in the pharmaceutical machinery and equipment manufacturing industry. The outlook may be revised to 'Positive' in case the company reports significant growth in revenue and operating margins while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile due to significant decline in net cash accruals or elongation in the working cycle leading to weakening of the liquidity position.

About the Rated Entity –Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	81.99	69.51	68.03
EBITDA	Rs. Cr.	10.33	8.47	8.93
PAT	Rs. Cr.	4.85	3.79	3.55
EBITDA Margin	(%)	12.60	12.18	13.12
PAT Margin	(%)	5.91	5.46	5.22
ROCE	(%)	25.17	22.42	46.78
Total Debt/Tangible Net Worth	Times	0.80	1.05	1.43
PBDIT/Interest	Times	4.71	4.26	3.84
Total Debt/PBDIT	Times	1.72	2.12	2.18
Gross Current Assets	Days	211	219	240

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
31 August, 2016	Cash Credit	Long Term	9.00**	SMERA BB+/Stable (Assigned)
	Bank Guarantee	Short Term	4.00*	SMERA A4+ (Assigned)
	Credit Exposure Limit	Short Term	0.10	SMERA A4+ (Assigned)

***Fully interchangeable with EPC/PPCFC/FBD/EBR.*
**Includes sublimit of Letter of Credit to the extent of Rs. 0.50 crore*

***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	N.A	N.A	N.A	9.00#	SMERA BBB- /Stable (Upgraded from SMERA BB+/Stable)
Bank Guarantee	N.A	N.A	N.A	4.00^	SMERA A3 (Upgraded from SMERA A4+)
Proposed Long Term Facility	N.A	N.A	N.A	0.10	SMERA BBB- /Stable (Assigned)

#Fully interchangeable with EPC/PPCFC/FBD/EBR.
^Includes sublimit of Letter of Credit to the extent of Rs. 0.50 crore

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

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ABOUT SMERA

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