

Press Release

Pharmalab India Private Limited

December 21, 2018



Rating Upgraded, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 22.10 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Upgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from **ACUITE BBB-** (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from **ACUITE A3** (**read as ACUITE A three**) to the Rs.5.10 crore bank facilities of Pharmalab India Private Limited (PILPL). The outlook is '**Stable**'.

Also, Acuité has assigned long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) to the Rs.17.00 crore bank facilities of PIPL. The outlook is '**Stable**'.

Further, Acuité has withdrawn long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs.9.00 crore bank facilities of PIPL.

The rating revision is in view of higher than expected growth in revenues during FY2018 which is expected to be sustained over near to medium term. Acuité expects that PIPL will be able to exhibit improved operating metrics.

PIPL (erstwhile Pharmalab Process Equipments Private Limited), a Mumbai-based company incorporated in 2006 is promoted by 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 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 FY2018. 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 as overseas markets.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of PIPL to arrive at the rating.

Key Rating Drivers

Strengths

• **Established presence in the pharmaceutical industry 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 ~33 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 and 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.

- **Comfortable financial risk profile**

The financial risk profile is comfortable marked by total tangible net worth of Rs.27.21 crore as on 31 March, 2018 as against Rs. 22.73 crore in the previous year. The gearing stood at 0.64 times as on 31 March, 2018 as against 0.80 times in the previous year. The total debt of Rs.17.53 crore as on 31 March, 2018 includes long term borrowings of Rs.0.75 crore, interest bearing unsecured loan from related parties of Rs.8.02 crore and short term borrowings of Rs.8.75 crore. The coverage indicators are comfortable as the interest coverage ratio (ICR) stood at 4.80 times for FY2018. The net cash accruals to total debt (NCA/TD) stood at 0.32 times in FY2018 and in the previous year. The company registered total outside liabilities to tangible net worth (TOL/TNW) of 1.76 times in both FY2018 and in the previous year.

Weaknesses

- **Working capital intensive operations**

The operations of the company are working capital intensive with Gross Current Asset (GCA) days of 213 for FY2018 as against 211 days in the previous year. The stretched GCA days are on account of long inventory days and debtor days of 101 and 86 respectively for FY2018. The inventory mainly includes work-in-process due to long gestation in order execution. Around 31 percent of the debtors as on 31 March, 2018 are outstanding for more than six months. The high GCA days are also driven by high amounts of other current assets of Rs.8.87 crore as on 31 March, 2018. The working capital cycle stood at 93 days for FY2018 as against 124 days in the previous year. However, the liquidity position continues to remain comfortable with average cash credit limit utilisation of ~85 percent for the last six months ended 31 October, 2018. The net cash accruals stood at Rs.5.67 crore for FY2018 as against debt obligation of Rs. 0.12 crore.

- **Intense competition and cyclical 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.

Outlook: Stable

Acuité believes that the company will 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 maintains 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	99.39	81.99	69.51
EBITDA	Rs. Cr.	10.56	10.33	8.47
PAT	Rs. Cr.	4.46	4.85	3.79
EBITDA Margin	(%)	10.62	12.60	12.18
PAT Margin	(%)	4.49	5.91	5.46
ROCE	(%)	20.88	25.17	22.42
Total Debt/Tangible Net Worth	Times	0.64	0.80	1.05
PBDIT/Interest	Times	4.80	4.71	4.26
Total Debt/PBDIT	Times	1.75	1.72	2.12
Gross Current Assets (Days)	Days	213	211	219

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/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
21-Dec-2017	Cash Credit	Long Term	9.00**	ACUITE BBB- / Stable (Upgraded)
	Bank Guarantee	Short Term	4.00*	ACUITE A3 (Upgraded)
	Proposed Long Term Loan	Long Term	0.10	ACUITE BBB- / Stable (Assigned)
31-Aug-2016	Cash Credit	Long Term	9.00**	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Short Term	4.00*	ACUITE A4+ (Assigned)
	Derivative Exposure	Short Term	0.10	ACUITE 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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB / Stable (Withdrawn)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00 (Enhanced from Rs.4.00 cr.)	ACUITE A3+ (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BBB / Stable (Upgraded)

Cash Credit of Rs.9.00 crore is fully interchangeable with EPC/PPCFC/FBD/EBR.

PC/PCFC of Rs.12.00 crore is fully interchangeable with PSFC and cash credit.

Term Loan of Rs.5.00 crore includes sublimit of Capex LC to the extent of Rs. 5.00 crore.

Bank guarantee of Rs.5.00 crore includes sublimit of letter of credit to the extent of Rs. 5.00 crore.

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About Acuité Ratings & Research:

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