Press Release

Pharmalab India Private Limited

March 16, 2020

Rating Downgraded

Total Bank Facilities Rated*	Rs. 24.10 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Negative (Downgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A3 (Downgraded from ACUITE A3+)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BBB-**' **(read as ACUITE triple B minus)** from '**ACUITE BBB**' **(read as ACUITE triple B)** and short-term rating to '**ACUITE A3**' **(read as ACUITE A three)** from '**ACUITE A3+**' **(read as ACUITE A three plus)** on the Rs.24.10 crore bank facilities of PHARMALAB INDIA PRIVATE LIMITED (PIPL). The outlook is revised from **'Stable'** to **'Negative'**.

The rating downgrade is on account of steep decline in revenues and profitability for FY2020 (9M). The company has reported operating loss of 0.48 crore (Provisional) for FY2020 (9M) as compared to 11.67 crore for FY2019. Also, its revenues were volatile and declined from Rs.107.26 crore in FY2019 to Rs.40.22 crore (Provisional) in FY2020 (9M). The ratings are constrained by declining revenues and highly competitive and fragmented industry. However, the ratings factor in the experienced management and long track record of operations.

PIPL (the erstwhile Pharmalab Process Equipments Private Limited), a Mumbai-based company incorporated in 2006 is 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, and installation and commissioning of fabricated stainless steel process and packaging equipments used in various industries including pharmaceuticals, foods & beverages and breweries. 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.

Analytical Approach

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

Key Rating Drivers

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 ~49 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 have more than four decades of experience in the machinery and equipment manufacturing business.

  Going forward, Acuité believes that the company would maintain a stable business risk profile on account of its established presence and extensive experience of the promoters.

- **Moderate financial risk profile**
PIPL has a moderate financial risk profile marked by net worth of Rs. 34.05 crore as on 31 March, 2019 (Rs. 27.21 crore as on 31 March, 2018). The gearing stood at 0.66 times as on 31 March, 2019 as against 0.64 times as on 31 March, 2018. The total debt of Rs. 22.40 crore comprises term loan of Rs. 3.2 crore, unsecured loans from promoters and related parties of Rs. 7.23 crore and working capital borrowings of Rs. 11.88 crore as on 31 March, 2019. The interest coverage ratio stood at 6.34 times in FY2019 as against 4.80 times in FY2018. This is mainly due to increase in profitability in FY2019. The net cash accruals stood at Rs.8.11 crore in FY2019 (Rs. 5.67 crore in FY2018). The company's total outside liabilities to tangible net worth (TOL/TNW) stood at 1.27 times in FY2019 and 1.76 times in the previous year.

Weaknesses

- **Decline in revenues and profitability**
The company's revenues and profitability declined sharply for FY2020 (9M). The company has reported operating loss of 0.48 crore (Provisional) for FY2020 (9M) as compared to 11.67 crore for FY2019. Also, its revenues were volatile and declined from Rs.107.26 crore in FY2019 to Rs.40.22 crore (Provisional) in FY2020 (9M). The decline was majorly due to slowdown in the end users industry which impacted the sales of PIPL. Going ahead, improvement in operating performance of the company will be a key rating sensitivity.

- **Working capital intensive operations**
The operations of the company are working capital intensive with Gross Current Asset (GCA) days of 179 for FY2019 as against 213 days in the previous year. The stretched GCA days are on account of long inventory days and debtor days of 104 and 62 respectively for FY2019. The inventory mainly includes work-in-process due to long gestation in order execution. Around 47 percent of the debtors as on 31 March, 2019 are outstanding for more than six months. The high GCA days are also driven by high amounts of other current assets of Rs. 8.75 crore as on 31 March, 2018. The working capital cycle stood at 114 days for FY2019 as against 93 days in the previous year. However, the liquidity position continues to remain comfortable with average cash credit limit utilisation of ~78 percent for the last six months ended 31 December, 2019.

- **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 and decline in revenues.

Rating Sensitivity
- Significant growth in operating performance leading to overall improvement in financial risk profile.
- Stretched working capital cycle and deterioration in liquidity position.

Material Covenants
None

Liquidity Position – Adequate
PIPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.82 to 8.11 crore during the three years through 2017-19, while its maturing debt obligations were in the range of Rs.0.12 to 1.69 crore over the same period. The cash accruals of the company are estimated to remain decline in FY2020. However, the company will meet its debt repayment obligation The Company's operations are working capital intensive as marked by gross current asset (GCA) days of 179 in FY2019. However, reliance on working capital borrowings has remained low, the cash credit limit in the company remains utilized at ~78 percent during the last 6 months period ended December 2019. The company maintains unencumbered cash and bank balances of Rs.1.28 crore as on March 31, 2019. The current ratio of the company stand moderate at 1.65 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual as compared to debt repayments over the medium term.

Outlook: Negative

Acuité believes that the outlook of PIPL will remain 'Negative' over the medium term due to significant decline in operating performance. The rating may be downgraded in case of sustained decline in the revenue profile leading to low profitability and deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Stable' if the company registers significant improvement in revenue while maintaining profitability

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	107.26	99.39
PAT	Rs. Cr.	6.82	4.46
PAT Margin	(%)	6.35	4.49
Total Debt/Tangible Net Worth	Times	0.66	0.64
PBDIT/Interest	Times	6.34	4.80

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

Not Applicable

Any other information

SMERA Gradings & Ratings Private Limited, a wholly owned subsidiary of Acuité Ratings & Research Limited, operates from a leased office premises owned by Pharmalab India Private Limited.

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities -https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Dec-2018	Cash Credit	Long Term	9.00	ACUITE BBB (Withdrawn)
	Packing Credit	Long Term	12.00	ACUITE A3+ (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Bank guarantee/Letter of Credit	Long Term	5.00	ACUITE A3+ (Upgraded)
	Proposed Long Term Loan	Short Term	0.10	ACUITE BBB/ Stable (Upgraded)
21-Dec-2017	Cash Credit	Long Term	9.00**	ACUITE BBB-/ Stable (Upgraded)
	Bank guarantee/Letter of Credit	Short Term	4.00*	ACUITE A3 (Upgraded)
	Proposed Long Term Loan	Long Term	0.10	ACUITE BBB-/ Stable (Assigned)

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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Downgraded from ACUITE A3+)
Term Loan	01-Jun-2018	Not Applicable	30-Jun-2022	3.26 (Reduced from Rs.5.00 crore)	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/Stable)
Bank guarantee/Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00 (Enhanced from Rs.5.00 crore)	ACUITE A3 (Downgraded from ACUITE A3+)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.84	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/Stable)

Packing credit is fully interchangeable with PSFC and cash credit
Bank Guarantee includes sublimit of letter of credit to the extent of Rs. 5.00 crore.
Term loan includes sublimit of Capex LC to the extent of Rs. 5.00 crore.

Contacts

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About Acuité Ratings & Research:
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