Press Release

Pharmalab India Private Limited

June 10, 2021

Rating Reaffirmed; Outlook Revised

Total Bank Facilities Rated*	Rs.24.10 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed; Outlook revised to 'Stable' from 'Negative')
Short Term Rating	ACUITE A3 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and short-term rating of **'ACUITE A3 (read as ACUITE A three)** on the Rs.24.10 crore bank facilities of Pharmalab India Pvt. Ltd. (PIPL). The outlook is revised to **'Stable'** from **'Negative.'**

The revision in outlook derives comfort from improvement in operating parameters of PIPL in FY2021 after a sharp deterioration witnessed in FY2020. The company has been witnessing healthy order flow since past one year marked by healthy order book position of Rs.86.90 crore as on May 2021. PIPL's revenue in FY2021 (estimated) stood at Rs.83.35 crore compared to Rs.66.95 crore in FY2020. The company also witnessed a sharp improvement in operating margins marked by EBITDA margin of 7.58 per cent in FY2021 (estimated) compared to operating losses in FY2020. The improvement in operating performance was led by higher investments and demand witnessed in the pharmaceutical sector. Subsequently, the debt protection metrics also improved backed by improvement in operating performance, marked by interest coverage ratio improving to 4.57 times for FY2021 (estimated) from 0.12 times for FY2020 and DSCR to 1.93 times for FY2021 (estimated) from 0.06 times for FY2020. The ratings also take into account intensive working capital operations and intense competition and cyclicality in the capital goods industry.

About the Company

PIPL (the erstwhile Pharmalab Process Equipments Private Limited), is a Mumbai-based company incorporated in 2006 by 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 equipment used in various industries including pharmaceuticals, foods & beverages and breweries. PIPL has three ISO-certified manufacturing units in Gujarat.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in the pharmaceutical and experienced promoters**
  PIPL is a part of the pharmaceutical machinery and equipment manufacturing industry for over a decade. Its promoters (i.e. Mr. Shah and family) have more than four decades of experience in the machinery and equipment manufacturing business. The established presence of the company and promoters' long experience have helped it acquire and maintain long standing relations with reputed customers and receive repeat orders. PIPL's client profile comprises reputed name like Aurobindo Pharma Limited, Biological E. Limited, Cadila Healthcare Limited, Dr. Reddy`s Laboratories Limited, and Bharat Biotech International Ltd., among others. The company also exports (~20-25per cent of revenue) to countries including Africa, South East Asia, Middle East, etc.

  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**
Financial risk profile of PIPL continues to remain moderate marked by modest net worth, strong gearing level and moderate debt-protection metrics. The company's net worth as on March 31, 2020 declined to Rs.30.15 crore from Rs.34.05 crore as on March 31, 2019. This was due to a deterioration in profit position in FY2020. Net worth, as on March 31, 2021, is estimated to have improved to Rs.32.77 crore with improvement in profit position.

  The company's gearing level (debt-equity ratio) continues to remain below unity. From 0.66 times as on March 31, 2019, debt to equity ratio improved to 0.59 times as on March 31, 2020 and further to 0.43 times on March 31, 2021 (estimated). The company's debt level as on March 31, 2020 stood at Rs.17.90 crore and has come down to Rs.14.18 crore as on March 31, 2021 (estimated) mainly led by lower short-term debt. The company's total debt as on March 31, 2020 comprised long-term debt of Rs.3.47 crore, short-term debt of Rs.6.96 crore and unsecured loan from director/related party of Rs.7.48 crore. Acuite estimates that the company's gearing level to continue to improve over a medium term with debt to equity ratio standing at ~0.33 times by March 31, 2023. Total outside liabilities to tangible net worth (TOL/TNW) stood at 1.95 times as on March 31, 2020 and is estimated to have improved to ~1.55 times as on March 31, 2021.

  Interest coverage ratio of PIPL is also expected to have improved to ~4.57 times for FY2021 from 0.12 times for FY2020. Debt service coverage ratio (DSCR) is estimated at 1.93 times for FY2021 compared to 0.06 times a year back. This was led by overall improvement in the operating performance. Going ahead, both the coverage indicators are expected to improve further with interest coverage ratio standing at ~5.5-6 times and DSCR at ~2.5-3.5 times during FY2022-23.

- **Improvement in operating performance**
Though PIPL's performance was sharply deteriorated in FY2020, it improved significantly in FY2021 led by higher investments and demand witnessed in the pharmaceutical sector, which is a key client industry of PIPL. The company's operating revenue in FY2021 (estimated) stood at Rs.83.35 crore compared to Rs.66.95 crore in FY2020. EBITDA margin, in FY2021 (estimated) stood at 7.58per cent compared to operating losses incurred in FY2020. PAT margin is estimated at 3.15 per cent in FY2021verus net losses in FY2020.

  The company has been witnessing healthy order flow since past one year. The company's current unexecuted order book, as on May 2021, stands at Rs.86.90 crore and further new orders of Rs.15-20 crore are expected in the coming quarters.

  Acuite believes that higher demand/capex in pharmaceutical sector would continue to support PIPL's operating performance in the near to medium term. The company's revenue, during FY2022-23 is estimated to grow at a CAGR (compounded annual growth rate) of ~6-7per cent with EBITDA margin standing ~8 to 8.5per cent.

Weaknesses

- **Working capital intensive operations**
PIPL has intensified working capital operations marked by average GCA days standing ~250 during FY2018 to FY2020. Although, it is expected to have moderated to some extent in FY2021 over FY2020. GCA days stood at ~277 for FY2021 (estimated) compared to 358 for FY2020. This was led by improvement in inventory level and collection period. Inventory days and debtor days for FY2021 (estimated) stood at 176 and 78, respectively, compared to 206 and 92 for FY2020. Average bank limit utilization, during the five months through March 2021, stood lower at ~37per cent. Going ahead, the company's GCA days would remain ~220-230 level over a medium term.

- **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. 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 Sensitivities
- Elongation of working capital cycle
- Further improvement revenue growth and operating profitability

Material Covenants
Nil

Liquidity Position – Adequate
With improvement in overall performance in FY2021, the company's liquidity position is also estimated to have improved. The company net cash accruals for FY2021 is estimated at ~Rs.4.52 crore compared to maturing debt obligations of Rs.1.62 crore. The company's current ratio continues remain at a moderate level of 1.55 times as on March 31, 2021 (estimated), although improved from 1.41 times as on March 31, 2020. Despite working capital intensive operations, average bank limit utilization, during the five months through March 2021, stood lower at ~37per cent.

Acuite believes that liquidity position of PIPL would remain adequate in the medium term with sufficient net cash accruals to maturing debt obligations. Net cash accruals, for FY2022-23 are estimated in the range of Rs.5.45 crore to Rs.5.80 crore versus debt repayment obligations of Rs.0.45 crore to Rs.1.40 crore during the same period. Utilization of working capital limit is unlikely to be very high in the near term.

Outlook: Stable
Acuité believes that PIPL would maintain 'Stable' outlook over a medium term on the back of experienced management, long presence in the pharmaceutical sector, which is witnessing higher capex and demand, thereby improving operating performance of PIPL. The outlook may be revised to 'Positive' in case the company reports better than expected revenue and improvement in operating margin. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than estimated revenue and operating margin, thereby hurting its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	66.95	107.26
PAT	Rs. Cr.	(3.83)	6.82
PAT Margin	(%)	(5.72)	6.35
Total Debt/Tangible Net Worth	Times	0.59	0.66
PBDIT/Interest	Times	0.12	6.34

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
16-Mar-2020	Packing Credit	Short Term	12.00	ACUITE A3 (Downgraded)
	Term Loan	Long Term	3.26	ACUITE BBB-

				/Negative (Downgraded and outlook changed)
	Bank Guarantee/Letter of Credit	Short Term	7.00	ACUITE A3 (Downgraded)
	Proposed Bank Facility	Long Term	1.84	ACUITE BBB- /Negative (Downgraded and outlook changed)
21-Dec-2018	Cash Credit	Long Term	9.00	ACUITE BBB (Withdrawn)
	Packing Credit	Short Term	12.00	ACUITE A3+ (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Bank Guarantee/Letter of Credit	Short Term	5.00	ACUITE A3+ (Upgraded)
	Proposed Bank Facility	Long Term	0.10	ACUITE BBB/Stable (Upgraded)

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

***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 (Reaffirmed)
Term Loan	Not Available	Not Available	Not A Available	1.63 (Reduced from 3.26)	ACUITE BBB-/Stable (Reaffirmed; Outlook revised)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00* (reduced from 7.00)	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.47	ACUITE BBB-/Stable (Reaffirmed; Outlook revised)

^fully interchangeable with post-shipment includes CC sub-limit of Rs.5 crore, WCDL-1 sub-limit of Rs.5 crore (fully interchangeable with CC), WCDL-2 sub-limit of Rs.7 crore (interchangeable with PCFC), BG sub-limit of Rs.10 crore
**includes LC sub-limit of Rs.5 crore and SBLC sub-limit of Rs.2 crore.*

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.