

Press Release
Pharmalab India Private Limited

September 05, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	-	ACUITE A3+ Upgraded
Bank Loan Ratings	7.10	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	24.10	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to **ACUITE BBB (read as ACUITE triple B)** from ACUITE BBB- (read as ACUITE BBB minus) and short term rating to **ACUITE A3+ (read as ACUITE A three plus)** from ACUITE A3 (read as ACUITE A three) on the Rs. 24.10 Cr. bank facilities of Pharmalab India Pvt Ltd. The outlook is 'Stable'.

Rationale for Rating Upgrade:

The rating upgrade is on account of the improvement in operating and financial performance of PIPL. The operating income of the Company improved to Rs. 120.69 Cr. in FY22(Prov.) as against Rs. 85.61 Cr. in FY21. The operating profitability margin stood at 9.66 percent in FY2022 as against 5.88 percent in FY2021. The overall gearing improved to 0.30 times as on March 31, 2022 (Prov.) as against 0.43 times as on March 31, 2021. Going forward, sustenance of the growth in scale of operations while maintaining the profitability margins and capital structure and elongation in working capital cycle will be a key rating monitorable.

About the Company

Mumbai-based Pharmalab India Private Limited (the erstwhile Pharmalab Process Equipments Private Limited) was incorporated in the year 2006. The day to day operations are currently managed by Mr. Umesh P Shah, Ms. Rashmi Shah and Mr. Karnik Parekh. PIPL is engaged in designing, manufacturing, installation and commissioning of state of art equipments in the areas of Water system, Sterilisation, Processing, Filtration, Packaging etc. It caters to industries like pharmaceutical, chemicals, beverages, distilleries, pesticides, food etc. It currently has three ISO certified manufacturing units located in Ahmedabad, Gujarat.

Analytical Approach

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

Key Rating Drivers

Strengths

Rating History

PIPL was established in the year 2006 and is currently being managed by Mr. Umesh P Shah , Ms. Rashmi Shah and Mr. Karnik Parekh. All the promoters and their family have more than four decades of experience in the machinery and equipment manufacturing business. The management is supported by a well-qualified and experienced team of professionals. 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's revenue improved to Rs. 120.69 Cr in FY2022 (Prov.) as against Rs. 85.61 Cr in FY2021 . The company exports ~40-60 percent of its gross revenue to countries in Africa, South East Asia, Middle East, etc. The operating profitability margin improved to 9.66 percent in FY2022 as against 5.88 percent in FY2021. The improvement in margins is on account of higher cost efficiencies and change in sales product mix of the Company.

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 moderate networth, low gearing and above average debt protection metrics. The net-worth increased to Rs. 40.79 Cr. as on March 31, 2022(Prov.) as against Rs. 33.02 Cr. as on March 31, 2021. The net-worth increased due to accretion of profits to reserves. The total debt of Rs. 12.04 Cr. as on March 31, 2022(Prov.) includes unsecured loan of Rs. 7.07 Cr from its director/related party, long term borrowings of Rs. 0.59 Cr. and short term borrowings of Rs. 4.38 Cr. The company's overall gearing improved to 0.30 times as on March 31, 2022(Prov.) as against 0.43 times as on March 31, 2021. The TOL/TNW improved to 1.59 times as on March 31, 2022(Prov.) as against 1.77 times as on March 31, 2021. The ICR improved to 8.95 times in FY22(Prov.) as against 3.71 times in FY21. The NCA/TD improved to 0.74 times in FY22(Prov.) as against 0.32 times in FY21.

Acuité expects PIPL's financial risk profile to improve over the medium term in absence of any major debt funded capex plan.

Weaknesses

- **Working capital intensive nature of operations**

The company's operations are working capital intensive in nature. The GCA days improved to 254 days as on March 31, 2022(Prov.) as against 298 days as on March 31, 2021. The GCA days are primarily driven by inventory days and debtor days. The inventory days stood at 151 days as on March 31, 2022(Prov.) as against 180 days as on March 31, 2021. The debtor days stood at 64 days as on March 31, 2022(Prov.) as against 74 days as on March 31, 2021. The creditor days stood at 98 days as on March 31, 2022(Prov.) as against 146 days as on March 31, 2021. The average bank limit utilisation for the six months ended June, 2022 ranged between 65-70 percent.

Acuite believes the company's ability to restrict elongation in its working capital cycle will be a key rating sensitivity.

PIPL faces intense competition from organised and unorganised players in the capital goods

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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

- Sustaining the growth in scale of operations while maintaining the profitability margins and capital structure
- Improvement in working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company generated NCA of Rs. 8.92 Cr. in FY22(Prov.) as against Rs. 1.49 Cr. of maturing debt obligations. Going forward, the net cash accruals are expected to remain in the range of Rs. 9-10 Cr. in FY23-24 as against negligible maturing debt obligations. The company's GCA days stood at 254 days as on March 31, 2022(Prov.). The current ratio of the company stood at 1.53 times as on March 31, 2022(Prov.) The fund based working capital facility stood moderately utilised ranging 65-70 percent for the six months period ended July, 2022. The unencumbered cash and bank balance stood at Rs. 6.09 Cr. as on March 31, 2022(Prov.). Acuite believes that the liquidity position would be adequate over the medium term on account of moderate cash accruals as against negligible repayment obligations.

Outlook: Stable

Acuite believes that PIPL would maintain 'Stable' outlook over a medium term on the back of experienced management, long presence in the pharmaceutical sector and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company reports better than expected improvement in scale of operations while maintaining the profitability margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than estimated revenue and operating margin or in case of deterioration in its financial risk profile and liquidity.

Other Factors affecting Rating

None

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	120.69	85.61
PAT	Rs. Cr.	7.35	2.86
PAT Margin	(%)	6.09	3.34
Total Debt/Tangible Net Worth	Times	0.30	0.43
PBDIT/Interest	Times	8.95	3.71

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

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

Any other information

None

Applicable Criteria

Rating History

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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>

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Jun 2021	Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.63	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.47	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Short Term	12.00	ACUITE A3 (Reaffirmed)
16 Mar 2020	Proposed Bank Facility	Long Term	1.84	ACUITE BBB- Negative (Downgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	7.00	ACUITE A3 (Downgraded from ACUITE A3+)
	Packing Credit	Short Term	12.00	ACUITE A3 (Downgraded from ACUITE A3+)
	Term Loan	Long Term	3.26	ACUITE BBB- Negative (Downgraded from ACUITE BBB Stable)
21 Dec 2018	Cash Credit	Long Term	9.00	ACUITE BBB Stable (Withdrawn)
	Packing Credit	Short Term	12.00	ACUITE A3+ (Assigned)
	Term Loan	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Proposed Long Term Loan	Long Term	0.10	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
21 Dec 2017	Cash Credit	Long Term	9.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	4.00	ACUITE A3 (Upgraded from ACUITE A4+)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
RBL Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ Upgraded
RBL Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.10	ACUITE BBB Stable Upgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Simran Kesharwani Analyst-Rating Operations Tel: 022-49294065 simran.kesharwani@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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