Press Release
Pharmalab India Private Limited
December 04, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.10	ACUITE BBB | Stable | Reaffirmed	-
Bank Loan Ratings	12.00	-	ACUITE A3+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	24.10	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of **ACUITE BBB (read as ACUITE t riple B)** and the short-term rating of **ACUITE A3+ (read as ACUITE A three plus)** on the Rs. 24.10 Cr. bank facilities of Pharmalab India Private Limited. The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation of PIPL takes into account improvement in the company's operating performance of FY2023 as well as the healthy financial risk profile marked by moderate net-worth, low gearing and healthy debt protection metrics. The rating also draws comfort from the company's experienced management with an established track record of operations and its reputed clientele. The rating is however constrained by the company's working capital-intensive nature of operations and presence in a highly competitive and cyclical nature of the industry.

Going forward, ability of PIPL to maintain its scale of operations and profitability margins as per the estimated levels, while improving and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

PIPL incorporated in the year 2006, is a Mumbai-based company engaged in designing, manufacturing, installation and commissioning of the 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. The day-to-day operations of the company are currently managed by the directors Mr. Umesh P Shah, Mr. Rashmikant Shah and Mr. Karnik Parekh.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management with an established track record of operations and

reputed clientele

PIPL has an operational track record of nearly two decades and is currently managed by its directors, Mr. Umesh Shah, Mr. Rashmikant Shah and Mr. Karnik Parikh. The promoters and their family possess over four decades of experience in the machinery and equipment manufacturing business. The management is further supported by its well-qualified and experienced team of professionals in managing day-to-day operations of PIPL. The extensive experience of the management and the established presence of the company has enabled PIPL to maintain a healthy relationship with its reputed clienteles such as Aurobindo Pharma Limited, Biological E. Limited, Cadila Healthcare Limited, Dr. Reddy`s Laboratories Limited, Bharat Biotech International Limited amongst others from whom they receive repetitive orders.

Acuité believes that PIPL will continue to benefit from its experienced management and established track record of operations.

Healthy financial risk profile

Financial risk profile of PIPL is healthy marked by moderate net worth, low gearing and healthy debt protection metrics. The tangible net-worth of the company stood improved at Rs.53 Cr as on 31 March, 2023 as against Rs.40 Cr as on 31 March, 2022 due to accretion of profits to reserves. The gearing (debt-equity) stood improved at 0.16 times as on 31 March, 2023 as against 0.30 times as on 31 March, 2022 due to decrease in the company's overall debt of Rs.8 Cr in FY2023 as against Rs.12 Cr in FY2022. The total debt of Rs.8.32 Cr as on March 31, 2023 comprises of long-term bank borrowings of Rs.0.71 Cr and unsecured loans from directors of Rs.7.62 Cr. The gearing is expected to remain low over the medium term in the absence of any significant debt-funded capex plan.

The interest coverage ratio and DSCR stood healthy at 12.74 times and 7.79 times for FY2023 as against 8.44 times and 3.38 times for FY2022. The Net Cash Accruals to Total debt stood improved at 1.76 times for FY2023 as against 0.71 times for FY2022. The Total outside liabilities to Tangible net worth stood improved at 1.11 times for FY2023 as against 1.62 times for FY2022. The Debt-EBITDA ratio stood improved at 0.40 times for FY2023 as against 0.98 times for FY2022.

Acuité believes that the financial risk profile of PIPL will remain healthy over the medium term due to its low gearing, moderate tangible net worth and healthy debt protection metrics.

Improved operating performance

The operating performance of PIPL stood improved in FY2023 with an increase in its operating income to Rs.132 Cr in FY2023 as against Rs.121 Cr in FY2022 which is a growth of ~9 percent achieved during the year driven by increase in demand from both the domestic and exports market. The company sells a wide range of equipments related to processing, filtration, sterilization, packaging amongst others to its various end user industrial clients of pharmaceutical, chemicals, beverages, distilleries, pesticides etc sectors. Further, apart from exporting its owned manufactured equipments, the company also undertakes export trade of certain range of equipments as per specific requirement of its clients. The value of export sales improved during FY2023 to Rs.28 Cr as against Rs.23 Cr in FY2022.

Further, the operating and net profit margin of the company stood improved during FY2023 at 14.94 percent and 9.72 percent respectively as against 9.08 percent and 5.70 percent respectively in FY2022. The significant increase in operating margin in FY2023 is primarily a one-off instance since the company's requirement of purchasing the traded equipments during the year was lower as compared to its previous years as the closing stock of traded goods at the end of FY2022 remained significantly high due to held back of certain shipments which further got realized by the company during FY2023. PIPL, in the past has recorded operating margins in the range of 10 to 11 percent and going forward it is estimated that the company will continue to maintain the margins at similar levels over the medium term.

For the current year as on October 2023, PIPL has achieved revenue of Rs.71 Cr and has an unexecuted order book position of ~Rs.122 Cr which is expected to be completed over the next one year.

Acuité believes that PIPL will maintain its improved scale of operations and profitability margins over the near to medium term.

Weaknesses

Working capital intensive operations

The working capital operations of PIPL are highly intensive marked by its Gross Current Assets (GCA) of 237 days for FY2023 as against 247 days for FY2022. This is due to the inventory and receivables cycle of the company which remained elongated at 154 days and 62 days for FY2023 as against 150 days and 59 days for FY2022. The operations of the company are project based and the gestation period is around 4 to 6 months due to which the work in progress inventory of the company is usually high. The company receives around 20 percent of the advance payments from the customers and the remaining is received upon completing the dispatch of the orders, however considering the high gestation period, the balance receivables also get affected and therefore the debtors cycle remains elongated. Further, the creditors cycle of the company stood at 105 days in FY2023 as against 108 days in FY2022 and the average bank limit utilization for 6 months' period ended October 2023 stood lower at ~18 percent.

Acuité believes that the ability of PIPL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Intense competition and cyclicality in the capital goods industry

PIPL faces intense competition from various 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. Any slowdown in the order execution or postponement of the same from the customers can result in elongation of company's working capital cycle and decline in the revenue.

Rating Sensitivities

- Ability to maintain the scale of operations and profitability margins at the estimated levels
- Ability to improve and maintain an efficient working capital cycle

All Covenants

Not applicable

Liquidity Position - Adequate

PIPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.5 Cr to Rs.15 Cr during FY2021 to FY2023 against its debt repayment obligation of upto Rs.1.50 Cr during the same period. Going forward, the NCA are expected in the range of Rs.11 Cr to Rs.12 Cr for the period FY2024-FY2025 against its debt repayment obligation of upto Rs.0.30 Cr during the same period. The working capital operations of the company are intensive marked by its gross current asset (GCA) days of 237 days for FY2023. The average bank limit utilization for 6 months' period ended October 2023 stood lower at ~18 percent. Current ratio stands at 1.85 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.7 Cr in FY2023.

Acuité believes that the liquidity of PIPL is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that PIPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations, reputed clientele and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower-than- expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

Not applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	132.14	120.90
PAT	Rs. Cr.	12.84	6.89
PAT Margin	(%)	9.72	5.70
Total Debt/Tangible Net Worth	Times	0.16	0.30
PBDIT/Interest	Times	12.74	8.44

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

Not applicable

Any other information

None

Applicable Criteria

• 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Sep 2022	Proposed Bank Facility	Long Term	7.10	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Packing Credit	Short Term	12.00	ACUITE A3+ (Upgraded from ACUITE A3)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A3+ | Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.10	ACUITE BBB | Stable | Reaffirmed

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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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