

Press Release

QUADRAGEN VET HEALTH PRIVATE LIMITED

December 27, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 13.50 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA BBB minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 13.50 crore bank facilities of QUADRAGEN VET HEALTH PRIVATE LIMITED. The outlook is '**Stable**'.

Quadrugen VetHealth Private Limited (QVPL), a Karnataka-based company established in 2010 is engaged in the manufacturing of animal health and nutrition products such as feed ingredients, feed additives, vitamins, mineral premixes among others. QVPL caters to three segments: poultry and swine, pets and dairy. The company markets to 22 countries across the globe. Recently, it acquired a 100-per-cent stake in Karnataka Nutraceutical India Ltd, which is into a similar line of business. Karnataka Nutraceuticals India Limited (KNIL), established in 2005 is engaged in the manufacturing of pharmaceutical and animal healthcare specialty products. The company mainly manufactures Halquinol B.P-80 and its range of products. The Directors of both companies, Mr. C. Gopalaswamy, Mr. Lakshmikanth Yadav & Dr. Rajeevalochan Dinamani have more than two decades of experience in the said line of business. The Quadrugen Group (QG) consists of two companies, Quadrugen VetHealth Private Limited (QVPL) and Karnataka Nutraceuticals India Limited (KNIL).

Key Rating Drivers

Strengths

• Experienced management

The Quadrugen group is promoted by Mr. C. Gopalaswamy, Mr. Lakshmikanth Yadav and Dr. Rajeevalochan Dinamani with experience of more than two decades in the aforementioned line of business. They are well supported by an experienced and qualified team of professionals.

• Moderate financial risk profile

The group has a moderate risk profile marked by networth of Rs.26.99 crore as on 31 March, 2017 as against Rs.20.78 crore in the previous year. The gearing stood at 0.25 times as on 31 March, 2017 as against 0.58 times in the previous year. The total debt of Rs.6.74 crore as on 31 March, 2017 consists of long term debt of Rs.3.16 crore and short term borrowings of Rs.3.58 crore. The interest coverage ratio stood at 11.84 times for FY2016-2017 as against 3.86 times in the previous year. The NCA/TD ratio stood at 1.28 times in FY2017 as against 0.28 times in the previous year.

• Healthy profitability margins

The group reported healthy EBIDTA margin of 21.76 percent for FY2016-17 as against 14.47 percent in FY2015-16. Further, the group has reported PAT margin of 12.30 percent for FY2016-17 as against 3.66 percent in FY2015-16. High sale of Halquinol - a high margin product is the reason for increase in EBIDTA and PAT margin.

• Diversified geographical reach

The group caters to Mexico, Bolivia, United Kingdom, Denmark, Turkey and other countries. The product 'Halquinol' is largely sold in Latin America.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive marked by high gross current asset (GCA) of 113 days in FY2017 compared to 124 days in FY2016. The GCA days are mainly driven by other current assets of Rs.1.46 crore as on FY2017 as against Rs.1.01 crore in the previous year. Further, the inventory days fell to 27 days as on 31 March, 2017 as against 34 days in the previous year.

• Susceptibility of profitability to fluctuations in raw material prices and forex rates

The profitability is susceptible to volatility in raw material prices. The total raw material cost as a percentage of sales stood at 59.59 percent in FY2016-17 as against 63.97 percent in the previous year. Further, the company exports about 92 percent of its sales to countries including Philippines, Bolivia, Bangladesh and Oman. Hence, the profitability is exposed to fluctuations in forex rates in the absence of adequate hedging mechanism.

Analytical Approach

SMERA has considered the consolidated business and financial risk profiles of Quadragen VetHealth Private Limited and Karnataka Nutraceuticals India Limited, together referred to as the Quadragen Group (QG). The consolidation is due to the common promoters, shared brand name and financial synergies within the group. Going forward, the management plans to merge Quadragen VetHealth Private Limited and Karnataka Nutraceuticals India Limited in January 2018.

Outlook: Stable

SMERA believes that QG will maintain a Stable outlook and continue to benefit over the medium term from its promoters' extensive industry experience. The outlook may be revised to 'Positive' in case of sustainable improvement in the group's scale of operations, while it maintains its profitability and comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' if the group's revenue and profitability decline or if the financial risk profile weakens, most likely because of a stretch in its working capital cycle or large debt-funded capex expenditure.

About the Group

Quadragen Group consists of two companies, Quadragen VetHealth Private Limited (QVPL) and Karnataka Nutraceuticals India Limited (KNIL)

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	50.44	41.43	52.97
EBITDA	Rs. Cr.	10.98	5.99	7.39
PAT	Rs. Cr.	6.21	1.52	3.06
EBITDA Margin	(%)	21.76	14.47	13.95
PAT Margin	(%)	12.30	3.66	5.78
ROCE	(%)	26.19	13.21	38.39
Total Debt/Tangible Net Worth	Times	0.25	0.58	0.66
PBDIT/Interest	Times	11.84	3.86	5.35
Total Debt/PBDIT	Times	0.61	1.98	1.57
Gross Current Assets (Days)	Days	113	124	122

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

CRISIL, vide release dated November 09, 2017 has declared the ratings of Quadragen Vet Health Private Limited as noncooperative on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*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	4.50	SMERA BBB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA A3

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