

Press Release

Encarta Pharma Private Limited

January 11, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 37.75 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Upgraded from ACUITE D)
Short Term Rating	ACUITE A4 (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE B-**' (read as **ACUITE B minus**) from **ACUITE D (read as ACUITE D)** and short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from **ACUITE D (read as ACUITE D)** to the Rs. 37.75 crore bank facilities of Encarta Pharma Private Limited (EPPL). The outlook is 'Stable'.

The rating upgrade reflects timely servicing of debt obligations, and regularisation of continuous overdrawals. However, the same is constrained by fully utilised working capital limits due to intense working capital operations. The ratings also factors in experienced management with diversified product portfolio and moderate financial risk profile.

EPPL, a Bangalore-based company was incorporated in 2001. Founded by Mr. Keerthan P, Mr. Ganesh R. Nayak and Mr. Girish M, the company is engaged in trading of Cardiac & Endovascular Implants, ICU & OT Equipment and Ophthalmology products. The products include ICU/OT Workstations, Ventilators, Monitors and intraocular lens solutions, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and diversified product portfolio

EPPL promoters possess over two decades of experience in the medical equipment trading business. The company benefits from established relationships with Hospital and Medical equipment OEMs. The product portfolio contains Cardiac & Endovascular Implants, ICU & OT Equipment and Ophthalmology products. Acuité believes that the market potential, healthy and reputed client base and diversified product portfolio of EPPL are expected to support in improvement of business risk profile over the medium term.

• Moderate financial risk profile

The financial risk profile is marked by moderate net worth, comfortable total outside liabilities to tangible net worth (TOL/TNW) and modest debt protection metrics. The net worth is moderate at Rs.34.47 crore as on 31 March, 2018 as against Rs.31.21 crore in 31 March, 2017. TOL/TNW is comfortable at 0.99 times as on March 31, 2018, improved from 1.25 times as on March 31, 2017. The net cash accruals in FY2018 stood at about Rs.1.96 crore against repayment obligations of about Rs.0.25 crore, which is expected to keep the liquidity comfortable. However, investment of about Rs.21.39 crore as on 31 March, 2018 equivalent to or 61 percent of the net worth constrained the liquidity of EPPL; the investments are of long-term nature. On adjusting these investments against the net worth, the adjusted TOL/TNW comes to about 2.61 times as on March 31, 2018. However, debt protection metrics are modest with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 1.69 times and 0.08 times respectively for FY2018. With improving revenues, Acuité believes that the financial risk profile is expected to be at similar levels

over the medium term.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive as evident from Gross Current Assets (GCA) of 206 days as on March 31, 2018 as against 243 days as on March 31, 2017. The working capital is majorly in the form of debtors. The company maintains an average inventory of about two weeks of its cost of sales. The company offers credit period of about 90 days to its customers. High credit given to customers has led to high utilisation of its bank lines at 99 percent over the past six months through December, 2018. Acuite believes that due to stretched liquidity position, the operations are expected to be working capital intensive.

Outlook: Stable

Acuite believes that EPPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or higher than expected investments leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	101.74	92.65	104.82
EBITDA	Rs. Cr.	6.49	7.13	7.79
PAT	Rs. Cr.	1.44	1.24	2.05
EBITDA Margin	(%)	6.38	7.70	7.43
PAT Margin	(%)	1.41	1.34	1.96
ROCE	(%)	10.76	11.91	27.22
Total Debt/Tangible Net Worth	Times	0.68	0.84	0.71
PBDIT/Interest	Times	1.69	1.58	1.94
Total Debt/PBDIT	Times	3.49	3.60	2.81
Gross Current Assets (Days)	Days	206	243	207

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Dec-2017	Term Loan	Long Term	0.15	ACUITE D (Assigned)
	Bank Guarantee	Short Term	4.75	ACUITE D (Assigned)
	Letter of Credit	Short Term	7.85	ACUITE D (Assigned)
	Cash Credit	Long Term	20.00	ACUITE D (Assigned)
	Working Capital Demand Loan	Long Term	5.00	ACUITE D (Assigned)

***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	20.00	ACUITE B- / Stable (Upgraded)
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B- / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE B- / Stable (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.75	ACUITE A4 (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE A4 (Upgraded)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4 (Assigned)

Contacts

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About Acuité Ratings & Research:

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