

## Press Release

### ENCARTA PHARMA PRIVATE LIMITED

May 28, 2020

#### Rating Upgraded



<b>Total Bank Facilities Rated*</b>	Rs. 37.75 Cr
<b>Long Term Rating</b>	ACUITE B+ / Stable (Upgraded from ACUITE B-/Stable)
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

#### Rating Rationale

Acuite has Upgraded long term rating to '**ACUITE B+**' (read as **ACUITE single B plus**) from **ACUITE B-** (read as **ACUITE single B minus**) and reaffirmed the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) to the above mentioned bank facilities of ENCARTA PHARMA PRIVATE LIMITED. The outlook is '**Stable**'.

#### Reasons for Upgrade

The rating upgrade is on account of expected improvement in business as well as financial risk profile of the company. The financial risk profile is expected to improve backed by improvement in revenue and profitability in the near future. Further, the company is likely to have a positive impact on the business profile owing to the present COVID – 19 situation as the company is engaged in the trading of critical equipment such as ICU and OT equipment.

Encarta Pharma Private Limited (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 Cardiac & Endovascular Implants, ICU & OT Equipment's and Ophthalmology products.

#### Analytical Approach

Acuite has considered standalone business and financial risk profile of EPPL to arrive at the rating.

#### Key Rating Drivers

##### Strengths

##### Experienced management and diversified product portfolio

EPPL promoters Mr. Keerthan P, Mr. Ganesh R. Nayak and Mr. Girish M possess over two decades of experience in the medical equipment trading business. The company benefits from established relationship with Hospital and Medical equipment OEMs. The product portfolio contains Cardiac & Endovascular Implants, ICU & OT Equipment's, and Ophthalmology products. Acuite 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.36.20 crore as on 31 March, 2019 against Rs.34.47 crore in 31 March, 2018. TOL/TNW is comfortable at 0.89 times as of March 31, 2019, improved from 0.99 times as of March 31, 2018. The net cash accruals in FY2019 of about Rs.1.33 crore against repayment obligations of about Rs.1.89 crore. However, debt protection metrics are modest with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 1.50 times and 0.06 times respectively for FY2019. Acuite expected the revenues to increase in FY2021 on account of COVID – 19 as the company is engaged in Healthcare industry. Further, the financial risk profile of the company is expected to improve in near to medium term on account of the same.

## Weaknesses

### Working capital intensive operations

EPPL's operations are working capital intensive marked by high Gross Current Assets (GCA) of about 326 days in FY2019 as against 206 days in FY2018. This is on account of increase in debtor days to 168 days in FY2019 from 110 days in FY2018. EPPL's most of the purchases are against advance payments and some provide credit period of 30-45 days. EPPL's average bank limit utilization stood at 95 percent for the last six months ending April 2020. Further, the company's ability to manage its debtor position will remain a key monitorable.

### Highly fragmented and competitive industry

The company operates in a highly fragmented industry and faces competition from other players in the market. The industry is under government regulation where the cap on the medical equipment is fixed by the government.

### Rating Sensitivity Factor

- Significant improvement in revenues while maintaining the profitability
- Any further deterioration in working capital

### Material Covenants: None

### Liquidity Position: Stretched

EPPL's liquidity is stretched marked by high GCA days at 326 days for FY2019. Further the company generated cash accruals of Rs.1.33 crore in FY2019 as against repayment of Rs.1.89 crore in FY2019. The cash accruals of the company are estimated to remain around Rs.3.00 crore - 5.00 crore through FY20-22 against no repayment obligation during the said period. The company has 95 percent utilized their working capital limits over the past six months through April 2020. EPPL's current ratio stood at 1.22 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.

### Outlook: Stable

Acuite believes that the outlook on EPPL will remain 'Stable' over the medium term on the back of experience of management and long track record of operations. The outlook maybe revised to 'Positive' in case of sustained increase in operating income and profitability. Conversely, the outlook maybe revised to 'Negative' in case of any further stretch in its working capital cycle or higher than expected deterioration in financial risk profile and liquidity.

### About the Rated Entity - Key financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	66.34	101.74
PAT	Rs. Cr.	0.90	1.44
PAT Margin	(%)	1.36	1.41
Total Debt/Tangible Net Worth	Times	0.63	0.68
PBDIT/Interest	Times	1.50	1.69

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

None

### Any other information

Not Applicable

### 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-61.htm>

**Note on complexity levels of the rated instrument**  
<https://www.acuite.in/criteria-complexity-levels.htm>

**Rating History (Up to last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Mar-2020	Cash Credit	Long term	20.00	ACUITE B- Issuer not co-operating
	Working capital demand loan	Long term	5.00	ACUITE B- Issuer not co-operating
	Term Loan	Long term	0.15	ACUITE B- Issuer not co-operating
	Bank Guarantee	Short term	7.75	ACUITE A4 Issuer not co-operating
	Letter of Credit	Short term	4.75	ACUITE A4 Issuer not co-operating
	Proposed Bank Guarantee	Short term	0.10	ACUITE A4 Issuer not co-operating
11-Jan-2019	Cash Credit	Long term	20.00	ACUITE B- / Stable (Upgraded)
	Working capital demand loan	Long term	5.00	ACUITE B- / Stable (Upgraded)
	Term Loan	Long term	0.15	ACUITE B- / Stable (Upgraded)
	Bank Guarantee	Short term	7.75	ACUITE A4 (Upgraded)
	Letter of Credit	Short term	4.75	ACUITE A4 (Upgraded)
	Proposed Bank Guarantee	Short term	0.10	ACUITE A4 (Assigned)
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	Not Applicable	Not Applicable	Not Applicable	-	ACUITE B+ (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	-	ACUITE B+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.75	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE A4 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.25 (Enhanced from Rs.0.10 crore)	ACUITE A4 (Reaffirmed)

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**About Acuite Ratings & Research:**

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