

Press Release

STEDMAN PHARMACEUTICALS PRIVATE LIMITED

March 06, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 12.00 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. 12.00 crore bank facilities of STEDMAN PHARMACEUTICALS PRIVATE LIMITED. The outlook is '**Stable**'.

SPPL set up in 1985 by Mr. R Rajagopal commenced commercial production in 1991. The company primarily sells its own formulations and also undertakes contract manufacturing for players like Indus Life Sciences Fountil Life Sciences Mankind Glenmark amongst others. The manufacturing plant of SPPL is located at SIDCO Tamil Nadu. Its major brands are 'Drez' ointment and powder & 'Contus' pediatric syrup.

Key Rating Drivers

Strengths

- **Established track record of operation and experienced Management**

SPPL established in 1985 has presence of more than 30 years in the pharmaceutical industry. SPPL is led by Mr. R. Rajagopal (Managing Director) and Ramkumar Rajgopal (Joint Managing Director). Ramkumar Rajgopal is B.Tech in chemicals from IIT- Bombay and MS Ph.D. from Pennsylvania State University USA. The company has expertise in Antimicrobial formulations Nutrient proxy for essential amino acids and vitamins and pediatric syrup for cough and cold. The manufacturing facilities of SPPL are cGMP certified by State and Central Government Authorities of India and various foreign Drug Regulatory Authorities for exports.

- **Moderate financial risk profile**

SPPL's financial risk profile is moderate marked by net worth of Rs.7.83 crore as on 31 March 2017 as against Rs.6.42 crore as on 31 March 2016. The gearing (debt-equity) stood at 0.82 times as on 31 March 2017 as against 1.08 times as on 31 March 2016. The total debt of Rs.6.43 crore as on 31 March 2017 consists of term loan of Rs.1.14 crore and short term working capital limit of Rs.3.89 crore and unsecured loans Rs.1.40 crore. The interest coverage ratio stood at 3.86 times for FY17. Net Cash Accruals to Total debt (NCA/TD) stood at 0.31 times for FY17. Total outside liabilities to Tangible networth (TOL/TNW) stood at 1.42 times for FY17. Further SMERA believes the financial risk profile will remain healthy despite debt funded capex and backed by healthy net cash accruals.

Weaknesses

- **Highly fragmented and competitive industry**

The pharmaceutical formulations industry has large number of players which makes this industry highly fragmented and intensely competitive. SPPL is also a medium size player thereby limiting bargaining power and pricing pressure compared to well-established and larger players. Further it undertakes regular research and development to improve its product offerings and thereby it's pricing power.

- **Regulatory risks in the domestic and export market**

SPPL is exposed to regulatory risk in the domestic market as also in countries to which it exports i.e. Africa

Vietnam and Srilanka etc. Revenues from domestic market ~ 70% to total revenues in FY17. However the same is mitigated to an extent since it has been dealing with these countries for the last 30 years.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of SPPL to arrive at the rating.

Outlook: Stable

SMERA believes SPPL will maintain a stable business risk profile over the medium term. The concern will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the concern registers healthy growth in revenues while achieving sustained improvement in operating margins capital structure and working capital management. Conversely the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins or in case of deterioration in the firm's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	31.86	30.25	25.08
EBITDA	Rs. Cr.	3.05	3.08	2.01
PAT	Rs. Cr.	1.41	1.26	0.48
EBITDA Margin	(%)	9.59	10.19	8.00
PAT Margin	(%)	4.43	4.18	1.89
ROCE	(%)	17.61	18.63	25.76
Total Debt/Tangible Net Worth	Times	0.82	1.08	1.44
PBDIT/Interest	Times	3.86	3.17	2.09
Total Debt/PBDIT	Times	2.01	2.19	3.25
Gross Current Assets (Days)	Days	110	116	121

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

None

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	5.00	SMERA BBB- / Stable
Term loans	Not	Not	Not	0.21	SMERA BBB- /

	Applicable	Applicable	Applicable		Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.18	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.86	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A3
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.75	SMERA A3

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ABOUT SMERA

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