

Press Release

Scigenics India Private Limited

25 April, 2018

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 10.30 Cr. |
| Long Term Rating | SMERA BB / Outlook: Stable |
| Short Term Rating | SMERA A4+ |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 10.30 crore bank facilities of Scigenics India Private Limited (SIPL). The outlook is '**Stable**'.

SIPL was incorporated in 1991 by Mr. M. Muthuswamy and Mr. Gopal. The company manufactures fermenters (laboratory, pilot scale, industrial), bioreactors, CIP (cleaning in place) systems and filtration equipments used for research and development in biotechnology, life sciences, agriculture and pharma sectors.

Key Rating Drivers

Strengths

- **Experienced management**

SIPL is promoted by Mr. S. Muthuswamy who has experience of more than four decades in the line of business. The second line of management includes Mr. K Vijaysundaram and Mr. P Shankar with experience of more than two decades. The extensive experience has helped the company establish long term relations with suppliers and buyers.

- **Reputed clientele, moderate order book**

SIPL caters to Aurobindo Pharmalab Private Limited, Dr. Reddy's Laboratories Limited, Bharat Biotech International Private Limited, Bharat Petroleum Corporation Limited to name a few. The company has booked revenue of ~Rs.16.00 (provisional) crore till January 2018. Further, SIPL has a healthy order book position of Rs.26.00 crore for FY2018-19 which provides moderate revenue visibility over the medium term.

Weaknesses

- **Weak financial risk profile**

The tangible networth of the company has been low at Rs.3.20 crore as on 31 March, 2017 as against Rs.2.79 crore as on 31 March, 2016. The increase was due to internal accruals of Rs.0.42 crore. The gearing (debt-to-equity ratio) stood at 1.41 times as on 31 March, 2017 as against 1.53 times as on 31 March, 2016. The total debt of Rs.5.64 crore includes unsecured loans from friends and relatives of Rs.1.94 crore and short term working capital borrowing from banks of Rs.3.70 crore as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 2.03 times for FY2017 and FY2016. The net cash accruals to total debt (NCA to TD) stood at 0.10 times in FY2017 as against 0.12 times in FY2016.

- **Moderate scale of operations and profitability**

The operations are at a moderate level. The company registered revenue of Rs.14.57 crore for FY2017 as compared to Rs.12.03 crore for FY2016. From April 2017 to January 2018, the company registered revenue of ~Rs.16.00 crore (Provisional). The operating margins (EBIDTA) stood at 9.81 percent for FY2017 as against 10.49 percent for FY2016. Further, the Profit After Tax (PAT) margin stood at 2.86 percent in FY2017 and 2.92 percent in FY2016. The decline in profitability during FY2017 as compared to the margins in FY2016 is due to change in product mix and lead time taken in developing various fermenters.

- **Working capital intensive operations**

SIPL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 289 days in FY2017 and 339 days in FY2016. The GCA days are mainly dominated by high debtor days of 159 in FY2017 and 161 in FY2016. The major cause of delay in debtor realisation is due to delay in receiving performance certificates from customers. The average cash credit utilisation stood at ~84 percent for the six month period ended February 2018. The inventory days stood at 123 in FY2017 as against 161 in FY2016. The company has a policy to hold inventory of up to 120 days mainly due because of the time taken for completion of orders. SMERA believes that efficient working capital management will be crucial for the company to maintain a stable credit profile.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of SIPL.

Outlook: Stable

SMERA believes that SIPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and reputed client base. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue 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 revenue, profit margins or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 14.57 | 12.03 | 6.35 |
| EBITDA | Rs. Cr. | 1.43 | 1.26 | 0.30 |
| PAT | Rs. Cr. | 0.42 | 0.35 | -0.48 |
| EBITDA Margin (%) | (%) | 9.81 | 10.49 | 4.78 |
| PAT Margin (%) | (%) | 2.86 | 2.92 | -7.57 |
| ROCE (%) | (%) | 16.95 | 17.75 | 6.32 |
| Total Debt/Tangible Net Worth | Times | 1.76 | 1.41 | 1.53 |
| PBDIT/Interest | Times | 2.03 | 2.03 | 0.49 |
| Total Debt/PBDIT | Times | 3.82 | 3.05 | 11.17 |
| Gross Current Assets (Days) | Days | 289 | 339 | 389 |

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

Not Applicable

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. Crore) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-------------------------------|-------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA BB / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.30 | SMERA BB / Stable |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA A4+ |

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