

Press Release

Shri Bhavani Pharmaceuticals

June 21, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs.5.00 crore bank facilities of Shri Bhavani Pharmaceuticals (SBP). The outlook is '**Stable**'.

Shri Bhavani Pharmaceuticals is a partnership firm established in 2014 promoted by Mr. Manohar Bakale and family. The firm is engaged in manufacture of parenteral formulations, injections - dry and liquid. The firm commenced commercial production in April 2015 and primarily does contract manufacturing services for others. Firm's manufacturing facility is WHO-GMP approved, located in KIADB Industrial Area (Karnataka) with an installed capacity of 3 lakh ampules per day. Currently, the firm is manufacturing around 32 products.

Key Rating Drivers

Strengths

Experienced Partners

SBP's partners have experience of around 17 years in the pharmaceutical industry. Prior to the formation of this unit, they are engaged in similar line of business with other firms. SBP primarily works on contract manufacturing model for clients like Wallace Pharmaceuticals Pvt Ltd, Indi Pharma Pvt Ltd, Green Signal Bio Pharma Pvt Ltd among others. Though the operations are modest, however, SBP is able to ramp up the operations to ~Rs.6.30 crore (Provisional) in FY2018 from Rs.3.38 crore in FY2017. SBP manufactures around 32 products in the segments of pain management, anti-bacteria, among others. Acuité believes that SBP's business risk profile is expected to improve further supported by healthy relations with its clientele.

Weakness

Modest scale of operations and highly competitive industry

The firm received revenues of about Rs.6.30 crore (Provisional) in FY2018, though an increase by ~87 percent over Rs.3.38 crore in FY2017 is modest in the injectables industry. Further, the domestic pharma industry remains highly competitive with numerous contract manufacturers, multinational companies, as well as established domestic brands, leading to high competition that restricts the firm's pricing flexibility. The revenues are expected to improve to about Rs.12.00 – Rs.15.00 crore over the medium term; however, they continue to be modest in the industry.

Weak financial risk profile

SBP's financial risk profile is weak marked by high gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) and moderate coverage indicators. The gearing stood at 3.8 times and TOL/TNW is high at 5.0 times (Provisional) as of March 31, 2018. The net worth is modest at Rs.1.29 crore as of March 31, 2018, modest attributed to about 2 and a half years of commercial operations and reporting of losses in 2016 and 2017 which eroded the net worth from Rs.2.80 crore in FY2016. SBP's debt protection metrics of interest coverage ratio stood comfortable at 3.25 times, and net cash accruals to total debt at 0.33 times (Provisional) as of March 31, 2018. Acuité believes that the financial risk profile is expected to improve marginally over the medium term supported by expected increase in scale of operations and healthy operating margins of above 30 percent.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SBP.

Outlook: Stable

Acuité believes that SBP will maintain a 'Stable' outlook in the medium term on account of the experienced partners and reputed clientele. The outlook may be revised to 'Positive' in case of higher-than-expected revenues while sustaining the profitability and improving the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital cycle, thus, exerting pressure on the liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	3.38	0.51
EBITDA	Rs. Cr.	1.09	(0.13)
PAT	Rs. Cr.	(0.74)	(1.59)
EBITDA Margin	(%)	32.32	(26.30)
PAT Margin	(%)	(21.99)	(310.01)
ROCE	(%)	0.10	(16.67)
Total Debt/Tangible Net Worth	Times	7.48	3.85
PBDIT/Interest	Times	1.46	(0.35)
Total Debt/PBDIT	Times	5.09	(45.65)
Gross Current Assets (Days)	Days	89	147

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/criteria-fin-ratios.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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	0.30	ACUITE B / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.24	ACUITE B / Stable
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.46	ACUITE B / Stable

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About Acuité Ratings & Research:

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