Press Release

Crescent Formulations Private Limited

June 22, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 5.50 Cr.
Long Term Rating	ACUITE BB-/Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' **(read as ACUITE double B minus)** on the Rs.5.50 crore bank facilities of Crescent Formulations Private Limited (Crescent). The outlook is **'Stable'**.

Crescent Formulations, a proprietorship concern was promoted by Mr. Shaik Jainimiya in 1997. Later, the same was converted into a private limited company in 2010. Mr. Jainimiya started his career as a Medical Representative in 1986 before becoming an entrepreneur.

Crescent follows loan-licensing model for manufacture of its products. Currently, Crescent is outsourcing from two units - Crescent Therapeutics Ltd based out of Solan (Himachal Pradesh) and Suraksha Pharma Pvt Ltd based at Hyderabad. It has nine carrying and forwarding (C&F) agents for marketing and distribution of their products through stockists across Andhra Pradesh, Telangana, Tamil Nadu, Kerala, Karnataka, Maharashtra, and Orissa. All the products are generic drugs only.

Presently, Crescent has product base of about 70 formulations, and is waiting for approvals on about 30 products. All the products are prescriptive in nature. They have presence in about 10 therapeutic segments like Neurology, Psychiatry, Ortho, Arthritis, Nutraceutical, Gastro, and General among others. The drugs are sold under the brand name 'Crescent'. Its major focus is on Neuro, Psychiatry and Ortho drugs.

Key Rating Drivers

Strengths

Experienced management:

Crescent's promoter, Mr. Shaik Janimiya has extensive experience of around three decades in the pharmaceutical industry. The promoter is supported by an experienced team. The professional management has helped in expanding the product profile over a period.

Crescent operates on loan-licensing model from its two units in Himachal Pradesh and Telangana. It has nine C&F agents across its territories to take care of the distribution of its products. Further, Crescent has good field work team of about 250 medical representatives to promote the product at Doctor's end, as the products are of prescriptive nature. Also, over a period, Crescent has penetrated into Eastern and Western regions of Orissa and Maharashtra, besides its presence in Southern region. The increasing product profile and expanding reach has supported in growth of revenues at a compound annual growth rate (CAGR) of 13.70 percent for four years through FY2018. Acuité believes that Crescent is expected to benefit from the vintage management and product range in improving its business risk profile over the medium term.

Comfortable financial risk profile:

Crescent's financial risk profile is marked by comfortable gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) and interest coverage. Its gearing is at 0.86 times as of March 31, 2017, while TOL/TNW is comfortable at around 1.93 times. The capital structure is expected to improve marginally over the medium term supported by accretion to reserves and conservative debt policy of the management. The debt protection metrics of Interest service coverage (ICR) is comfortable at 2.8

times in FY2017. Crescent's net worth is moderate at Rs.4.24 crore as on March 31, 2017 compared to its gearing levels; and on provisional basis, its net worth is expected to be around Rs.5.30 crore as of March 31, 2018. Crescent's liquidity is comfortable marked by current ratio of 1.75 times as of March 31, 2017 driven by higher long term funds for the working capital requirements; also, it has no long term debt obligations to service. Acuité believes that the financial risk profile is expected to be comfortable in the absence of significant debt-funded capex plans and modest scale of operations and profitability.

Weaknesses

Working capital intensive operations:
Crescent's operations are working capital oriented, as reflected in its high Gross Current Asset (GCA) days of 149 as on March 31, 2017. The high GCA is mainly attributed to high debtor days of about 86 in terms of credit to the distributors and channel down the line. However, it maintains a minimal stock of about 35-45 days for smooth operations and no stock out position. High GCA lead to high utilisation of its working capital limits of Rs.4.80 crore of cash credit at about 80 percent over six months through April 2018, with expected increase in the revenues at about 10-15 percent over the medium term. The operations will continue be working capital intensive.

Modest scale of operations in a highly competitive generic formulations industry:
The company is into generic formulations industry with revenues of Rs.24.84 crore in FY2017, Rs.21.75 crore in FY2016, and estimated revenue of Rs.28.80 crore in FY2018. Though the revenues have improved at a compound annual growth rate (CAGR) of about 13.7 percent over the past four years through FY2018, however, they are at a modest level within the pharma industry. Further, domestic generic formulation industry remains highly competitive with numerous contract manufacturers, multinational companies, as well as established domestic brands, leading to high competition that restricts the company's pricing flexibility.

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

Outlook: Stable
Acuité believes that Crescent will maintain a 'Stable' outlook in the medium term on account of the experienced promoter and the management team. The outlook may be revised to 'Positive' in case of higher-than-expected revenues while sustaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital cycle on account of planned geographical diversification, thus, exerting pressure on the liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	24.84	21.75	19.58
EBITDA	Rs. Cr.	1.78	1.44	1.28
PAT	Rs. Cr.	0.65	0.49	0.27
EBITDA Margin	(%)	7.16	6.61	6.54
PAT Margin	(%)	2.62	2.27	1.39
ROCE	(%)	20.92	18.16	30.29
TOL/Tangible Net Worth	Times	1.93	2.01	2.70
PBDIT/Interest	Times	2.82	2.37	1.78
Gross Current Assets (Days)	Days	149	147	162

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.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	4.80	ACUITE BB- / Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE BB- / Stable (Assigned)

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About Acuité Ratings & Research:
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