

Press Release

Universal Pharmaceuticals Private Limited

June 26, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 9.00 crore bank facilities of Universal Pharmaceuticals Private Limited. The outlook is '**Stable**'.

Incorporated in 1990, Universal Pharmaceuticals Private Limited (UPPL) is a Chennai (Tamil Nadu) based company engaged in manufacturing of capsules and liquid dosages. The company has a manufacturing unit located in Puducherry. It has an installed capacity to manufacture about 6.00 crore capsules per annum and 1.2 crore bottles of liquids per annum. The company produces liquids such as cough syrup, mainly for Lupin Pharmaceuticals. In FY2018, the company converted from public limited to private limited.

Key Rating Drivers

Strengths

- **Experienced management and established relationship with Lupin Pharmaceuticals Ltd**

The Directors, Mr. P Sreenivasan, Mr. S.R. Marda, Mr. S Sivakumar have around 45 years of experience in Pharma Industry. The company started its operations in 1990 by production of capsules and liquids. Over a period, UPPL became approved vendor to Lupin Pharmaceuticals Ltd, one of the major pharma companies in India. The company is expected to generate revenue of around Rs.17.00 crore to Rs.18.00 crore in FY2018-19, in which LPL share will be around Rs.15.00 crore and export revenue, will be around Rs. 2.50 crore. The company is dealing with LPL since 2006 and is the sole supplier of LCF Cough Syrup and Lupifit Capsules and Liquid for LPL's Nagpur and Hyderabad plants. The company is also planning to increase the export sales through spending on business promotions. Acuite believes that based on the above facts, the company would touch the revenue of above Rs.20.00 crore over the medium term.

- **Comfortable financial risk profile**

The financial risk profile is marked by comfortable gearing and debt protection metrics though underpinned by low net worth levels. The net worth stood at Rs.4.33 crore as on 31 March, 2018 (Provisional), improved by Rs.0.56 crore as on FY2017; it was mainly due to accretion of profit to internal accruals. The gearing is comfortable at 0.19 times (Provisional) as of March 31, 2018 as compared to 0.44 times as on March 31, 2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are comfortable at 6.70 times and 1.05 times respectively for FY2018. Acuite believes that the gearing levels are expected to be at around 1.00 time as the company is envisaging debt-funded capex to the tune of Rs.4.95 crore funded via term loan of Rs.3.71 crore and rest via promoters' funds in FY2019.

Weaknesses

- **Intense market competition**

The pharmaceutical industry has large number of players which makes this industry highly fragmented and intensely competitive. UPPL is also a medium size player thereby limiting bargaining power and pricing pressure compared to well-established and larger players.

• Moderate working capital management

UPPL has moderate working capital operations as evident from Gross Current Asset (GCA) days of 147 as on March 31, 2018 (Provisional) as against 90 days as on March 31, 2017. The inventory days ranged from 22 to 48 days and debtor days ranged from 41 to 71 days during FY2015-FY2018. The company gives credit of up to a month to its customers. Moderate working capital management helps in managing the business with minimal amount of working capital debt of about Rs.1.00 crore, and the bank lines are utilised at about 50 percent over six months through March 2018. Acuite believes that the working capital operations of the company will remain moderate as evident from moderate collection mechanism and moderate inventory levels in the business.

• Client concentration in revenue profile

The company generates around 90 percent of revenue from LPL leading to client concentration risk. However, the company has established relationship with LPL since its dealing with same from 2006.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the UPPL to arrive at this rating.

Outlook: Stable

Acuite believes that the outlook on Universal Pharmaceuticals Private Limited will remain 'Stable' over the medium term on account of the experience of the promoters in the pharmaceutical industry and longstanding relationship with LPL. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle due to higher than expected inventory levels.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	17.02	11.59	14.39
EBITDA	Rs. Cr.	1.51	0.75	-0.28
PAT	Rs. Cr.	1.00	0.37	-1.12
EBITDA Margin	(%)	8.89	6.43	-1.91
PAT Margin	(%)	5.88	3.16	-7.81
ROCE	(%)	31.69	13.12	-47.69
Total Debt/Tangible Net Worth	Times	0.09	0.44	0.55
PBDIT/Interest	Times	8.18	3.03	-0.98
Total Debt/PBDIT	Times	0.21	1.56	-5.98
Gross Current Assets (Days)	Days	90	137	105

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.71	ACUITE BB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.29	ACUITE BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4

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About Acuité Ratings & Research:

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