

Press Release

Lyophilization Systems India Private Limited

August 14, 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 plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 9.00 crore bank facilities of Lyophilization Systems India Private Limited. The outlook is '**Stable**'.

Lyophilization Systems India Private Limited (LSIPL) is a Hyderabad based company incorporated in 2003 by Mr. Satya Prasad and Mr. Narendar. It is engaged in manufacturing of Lyophilizers (also known as Freeze dryers) and its spares. Further, the company also provides post installation services. Presently, the company is mainly catering to the pharma industry, and is planning diversification to defense sector. The company caters to both domestic as well overseas clients.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

The Promoters possess two decades of experience in the industry and handles entire operations of the company. Their rich experience in the industry has helped the company in maintaining long standing relationship with the customers as well as suppliers. The company supplies its products to some of the renowned customers, namely, Dr. Reddy's Laboratories Limited, Natco Pharma Limited, Cadila HealthCare Limited among others. As of June 2018, the company has an outstanding order book position of about Rs.31.00 crore for deliverables in FY2019. Acuite believes that LSIPL's business risk profile is expected to be stable over the medium term supported by revenue visibility and long operational track record of the promoters.

• Healthy financial risk profile

Financial risk profile of the company is healthy marked by healthy gearing, debt protection metrics and comfortable total outside liabilities to total net worth (TOL/TNW). The company was debt free as on 31 March, 2018. The debt protection metrics of interest coverage ratio is healthy and improved from 17.87 times in FY2017 to 20.73 times in FY2018 (Provisional) on account of low reliance on external borrowings for working capital requirements. TOL/TNW is healthy at 1.31 times as on 31 March, 2018 (Provisional). Acuite believes that the financial risk profile is expected to be healthy in the medium term in the absence of major debt funded capital expenditure.

Weaknesses

• Modest scale of operations and volatile revenues

Despite being in operation since 2003, the revenues remained modest. For FY2018 (Provisional), the company reported revenues of Rs.32.00 crore as against Rs.42.42 crore for FY2017. For the two and half months period in FY2019, the company reported revenues of Rs.4.66 crore and has orders in hand of Rs.30.84 crore to be executed by the end of current financial year. Acuite believes that the increase in scale of operations in the medium term would be a key rating sensitivity factor.

• Working capital intensive operations

The operations are working capital intensive as marked by high Gross Current Assets (GCA) of 303 days for the FY2018 (Provisional) as against 203 days in FY2017. This is mainly on account of high inventory holding period of around 172 days and high debtor days of 101 days for FY2018 (Provisional).

It takes minimum of two months to maximum of seven months to deliver one unit; resulting in high inventory holding for all the three years through FY2018. The company receives 30 percent of the amount in advance from customers, 60 percent after installation and remaining amount after three months of installation. Acuite believes that the operations continue to be working capital intensive on account of long delivery period of a product and extended credit terms with the customers.

Analytical Approach

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

Outlook: Stable

Acuite believes that LSIPL will maintain a 'Stable' outlook over the medium term owing to its experienced management, established relationship with customers and suppliers. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues and profitability while sustaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or any stretch in its liquidity on account of increase in its working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	42.42	25.51	18.93
EBITDA	Rs. Cr.	3.73	2.76	2.21
PAT	Rs. Cr.	2.22	1.44	1.11
EBITDA Margin	(%)	8.80	10.83	11.67
PAT Margin	(%)	5.23	5.65	5.88
ROCE	(%)	25.61	20.62	33.18
Total Debt/Tangible Net Worth	Times	0.15	0.26	0.32
PBDIT/Interest	Times	17.87	8.59	10.09
Total Debt/PBDIT	Times	0.50	0.93	1.23
Gross Current Assets (Days)	Days	203	348	414

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

Care Ratings, vide its press release dated April 02, 2018, has denoted the rating of Lyophilization Systems India Private Limited as CARE BB+/Stable/CARE A4+; ISSUER NOT COOPERATING'.

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	3.50	ACUITE BB+ / Stable

Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB+ / Stable

Contacts

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About Acuite Ratings & Research:

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