

Press Release

Geno Pharmaceuticals Private Limited

October 17, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 9.90 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Downgraded from ACUITE BBB+/Stable)
Short Term Rating	ACUITE A3+ (Downgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB+/Stable**' and short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A2**' (**read as ACUITE A two**) on the Rs. 9.90 crore bank facilities of Geno Pharmaceuticals Private Limited(GPPL). The outlook is '**Stable**'.

The downgrade factors in stagnant growth in revenues, deteriorating operating performance marked by decline in operating and profitability margins. The impact on business risk profile and margins is due to increase in operating expenses leading to significant decline in net cash accruals. Further, stiff competition from other players in market has also increased selling cost and constrain bargaining power with its customers. GPPL registered operating margins of 2.77 per cent in FY2019 (Provisional) as against 4.16 per cent in FY2018 and 12.03 per cent in FY2017. The PAT margins also stood uneven at 1.09 per cent in FY2019 (Provisional) as against 0.47 per cent in FY2018 and 5.70 per cent in FY2017. However, ratings derives comfort from established position in the industry, improving scale of operations, efficient working capital management and comfortable debt protection indicators.

Geno Pharmaceuticals Private Limited, incorporated in 1975, is a Goa-based company promoted by Mr. Dilip R. Salgaocar and family. It is an ISO 9001:2008 certified company. It is engaged in manufacturing of pharmaceutical formulations such as capsules and tablets, liquid orals and ointments. The company sells its products in India and exports to countries such as Kenya, Myanmar, Nigeria, Cambodia, Sri Lanka, and Costa Rica among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Geno Pharmaceuticals Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

GPPL has established track record, since 1975, in the manufacturing and distribution of formulation dosages comprising tablets, capsules, liquid orals and ointments. The company is promoted by Mr. Dilip R. Salgaocar and family, who collectively possess industry experience of more three decades. The extensive experience of promoters and network has established relationships with customers, suppliers. Acuité believes that GPPL will benefit from its established position in the pharmaceutical industry, experienced management and established relationships with customers and suppliers.

- Healthy financial risk profile and debt coverage levels**

GPPL's financial risk profile is healthy marked by net worth of Rs. 78.67 crore as on 31 March, 2019 (provisional) as against Rs. 77.79 crore as on 31 March, 2018. The gearing (debt-equity) is at conservative levels and stood at 0.22 times as on 31 March, 2019 (Provisional) as against 0.32 times as on 31 March, 2018. The total debt of Rs. 17.61 crore as on 31 March, 2019 (Provisional) consists of term

loan of Rs. 5.78 crore, current portion of long term debt of Rs. 4.45 crore and short term working capital limit of Rs. 7.37 crore. The interest coverage ratio is comfortable and stood at 5.53 times for FY2018-19 (Provisional) as against 4.02 times for FY2017-18. DSCR stood at 1.45 times for FY2018-19(Provisional) as compared to 0.96 times for FY2017-18. Net Cash Accruals to Total Debt stood at 0.37 times for FY2018- 19 (Provisional). Total Outside Liabilities to Tangible Net worth stood at 0.69 times for FY2018-19. Acuité believes that the financial risk profile will remain healthy given its moderate debt funded capital expenditure plan and steady net cash accruals.

Weaknesses

- **Decline in margins**

The operating margins of the company has declined significantly to 2.77 per cent in FY2019 (Provisional) as against 4.16 per cent in FY2018 and 12.03 per cent in FY2017. PAT margins have also remained uneven and fluctuating, which stood at 1.09 times in FY2019 (Provisional) as against 0.47 times in FY2018. The decline in margins has resulted in significant decline in net cash accruals having impact on overall financial risk profile of the company.

- **Regulatory risks in the domestic and export market**

GPPL is exposed to regulatory risk in the domestic market as also in countries to which it exports i.e. Kenya, Myanmar, Nigeria, Nepal, among others, which constitute ~ 10 per cent to total revenues in FY2019 (Provisional). However, the same is mitigated to an extent since it has been engaging with these customers and countries for the last 30 years.

- **Highly fragmented and competitive industry**

The pharmaceutical formulations industry has a large number of players, which makes this industry highly fragmented and intensely competitive. GPPL is also a moderate sized player, thereby limiting its bargaining power and pricing pressure compared to well-established and larger players. However, the company's established presence in the domestic market has enabled it to partially offset competitive pressures. Further, it undertakes regular research and development to improve its product offerings and thereby its bargaining power.

Liquidity Position

The liquidity profile of the company is adequate marked by net cash accruals of Rs. 6.53 crore as against repayment obligation of Rs. 4.45 crore for FY2019 (Provisional). The net cash accruals are expected to remain in the range of Rs. 5.00 to 6.00 crores during FY2020-22. The current ratio stood at 1.74 times as on 31 March, 2019 (Provisional) as against 1.78 times in previous year. The gross current assets (GCA) stood at 82 for FY2019 (Provisional) as against 122 days in FY2018. The working limit utilization stood low at 21.66 per cent for last six months ending September 2019. TOL/TNW stood at 0.69 times as on 31 March, 2019 (Provisional) as against 0.83 times in the previous year. NCA/TD stood at 0.37 times as on 31 March, 2019 (Provisional) as against 0.21 times in the previous year.

Rating Sensitivities

- Improving Scale of operations
- Decline in margins, profitability and net cash accruals
- Working capital management.

Material Covenants

None

Outlook: Stable

Acuité believes that GPPL will maintain 'Stable' outlook over the medium term owing to its experienced management and establish position in industry. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues, 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 revenues, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	181.60	169.82	175.64
EBITDA	Rs. Cr.	5.03	7.06	21.13
PAT	Rs. Cr.	1.98	0.79	10.02
EBITDA Margin	(%)	2.77	4.16	12.03
PAT Margin	(%)	1.09	0.47	5.70
ROCE	(%)	4.44	4.16	18.54
Total Debt/Tangible Net Worth	Times	0.22	0.32	0.33
PBDIT/Interest	Times	5.53	4.02	8.68
Total Debt/PBDIT	Times	1.92	2.83	1.12
Gross Current Assets (Days)	Days	82	122	119

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Aug-2018	Secured Overdraft	Long Term	9.00	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	0.90	ACUITE A2 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB/ Stable (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE A3+ (Downgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Rupesh Patel Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.