

Press Release
Seutic Pharma Private Limited

August 31, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.14.00Cr.
Long Term Rating	ACUITE BB-/Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE BB-' (read as ACUITE double B minus)** and short term rating of '**ACUITE A4' (read as ACUITE A four)** to the Rs.14.00 crore bank facilities of Seutic Pharma Private Limited (SPPL). The outlook is '**Stable**'.

Seutic Pharma Private Limited (SPPL) was incorporated in July 2014 by Mr. Valivarthi Siva Vara Prasad (holds 60 percent stake) and his wife, Padma Valivarthi (holds 40 percent stake). The company is engaged in the manufacture of active pharmaceutical ingredients (APIs) and pharmaceutical intermediates. SPPL has its manufacturing facility at Jeedimetla, Hyderabad (Telangana) in a leased premise with an installed capacity of 35 Metric Tons Per annum.

About the Group

SLPL was incorporated in 2016 by Mr. Valivarthi Siva Vara Prasad (holds 60 percent stake) and his wife, Ms. Padma Valivarthi (holds 40 percent stake). The company is engaged in manufacture of active pharmaceutical ingredients (APIs) and pharmaceutical intermediates. SLPL has its manufacturing facility at Bidar (Karnataka) with an installed capacity of 50 Metric Tons Per annum. FY2018 is the first full year of operation of the company.

Analytical Approach

For arriving at the ratings, Acuite has consolidated the business and financial risk profiles of Seutic Labs Private Limited and Seutic Pharma Private Limited (herewith referred to as Seutic Group). The consolidation is in view of the common ownership, and similar line of business.

Key Rating Drivers:

Strengths:

Established relationship with large pharmaceutical companies:

Mr. Valivarthi Siva Prasad is a technocrat with an experience of over a decade. With his experience, he ventured with SPPL in 2014 by taking a leased premise at Jeedimetla, Hyderabad (Telangana); majority of its product supplies are to Glenmark Pharmaceuticals Limited besides Assurgen Pharma Pvt Ltd, Shreejaya Laboratories among others. With successful operation of SPPL, he promoted another company, SLPL, with its own manufacturing unit in Karnataka. The healthy clientele and importance of the products has supported the Karnataka unit also. Acuite believes that Seutic group is expected to continue to enjoy the support from its healthy clientele, promoter's experience and product portfolio.

Healthy increase in scale of operations and profitability margins:

The revenue grew at a compound annual growth rate of over 44 percent in the last three years through 2018 at Rs.63.77 crore in FY2018 (Rs.28.85 crore in FY2017). Operating profit margins improved from 5.04 percent in FY2016 to 9.66 percent in FY2018 (Provisional) and net profit margins improved from 2.15 percent in FY2016 to 4.31 percent in FY2018 (Provisional). Growth in the profitability is partly attributed to increase in the scale of operations and efficiencies. Acuite believes that the margins are expected to be at similar levels over the medium term with revenues in the range of Rs.70.00 – 90.00 crore.

Weaknesses:

Modest scale of operations in the highly competitive bulk drug manufacturing industry:

The business risk profile is constrained due to its modest scale of operations in highly competitive bulk drug manufacturing industry. The scale of operations has remained modest with an operating income of Rs.63.77 crore in FY2018 (Provisional). Its scale of operations has remained modest as the company is dealing in highly competitive industry with numerous manufacturers, multinational companies, as well as established domestic brands, leading to high competition that restricts the company's pricing flexibility.

Below-average financial risk profile:

The financial profile of Seutic group is moderate marked by moderate net worth, high gearing (debt-to-equity) and total outside liabilities to total net worth and moderate protection metrics. The net worth stood at Rs.10.52 crore as on 31 March, 2018 (Provisional), an increase from Rs.2.88 crore in FY2017; it was mainly due to increase in share capital as infusion into SLPL and accretion of reserves. Gearing is high at 2.70 times in FY2018 (Provisional), improved from 6.09 times in FY2017 and TOL/TNW stood at 4.86 times in FY2018 (Provisional), improved from 12.52 times in FY2017. Debt protection metrics of Interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 2.98 times and 0.13 times respectively in FY2018 (Provisional). Acuite believes that with the increasing scale of operations, the financial risk profile is expected to be at similar levels over the medium term.

Working capital operations:

The group has intense working capital operations as evident from Gross Current Assets (GCA) of 233 days as on March 31, 2018 (Provisional) as against 245 days as on March 31, 2017. The company's inventory days ranged from 53 days to 134 days and debtor days ranged from 24 days to 45 days during FY16-FY18. That's primarily on account of the long process cycle involved in manufacturing key products. The customers are given credit of about 90-120 days, and most of the collections are on a timely basis with in two months. Acuite believes that the working capital operations of the company will remain intense as evident from high debtors and inventory levels.

High customer concentration with heavy reliance on Glenmark:

Seutic group's revenues are highly concentrated with about 80 percent from Glenmark Pharmaceuticals; though the group enjoys continued patronage, but any adverse outcome may impact the entire business risk profile of the group.

Outlook: Stable

Acuite believes that Seutic Group will maintain a 'Stable' outlook in the medium term on account of the experienced promoter 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 and liquidity. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	63.77	28.85	21.35
EBITDA	Rs. Cr.	6.16	2.04	1.08
PAT	Rs. Cr.	2.75	0.70	0.46
EBITDA Margin	(%)	9.66	7.06	5.04
PAT Margin	(%)	4.31	2.44	2.15
ROCE	(%)	17.39	14.25	29.48
Total Debt/Tangible Net Worth	Times	2.70	6.09	0.58
PBDIT/Interest	Times	2.98	3.13	6.40
Total Debt/PBDIT	Times	4.58	8.49	1.14
Gross Current Assets (Days)	Days	233	245	110

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>
- Consolidation Of Companies- <https://www.acuite.in/view-rating-criteria-22.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 (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/ Stable (Assigned)
DBP/DUBD	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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