Press Release

Nasense Labs Private Limited

September 23, 2020

Rating Upgraded, Assigned & Reaffirmed

Total Bank Facilities Rated*	Rs.70.00 crore. (Enhanced from Rs.44.00 crore)
Long Term Rating	ACUITE BB+/ Outlook: Stable (Upgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE BB+' (read as ACUITE double B plus)** from **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs.31.62 crore bank facilities and has assigned the long term rating of **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs.20.38 crore bank facilities of Nasense Labs Private Limited (NLPL). The outlook is **'Stable'**. Further, Acuité has also reaffirmed the short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.18.00 crore bank facilities of Nasense Labs Private Limited.

The rating upgrade is on account of improvement in business operations over the years by the company on the back of healthy demand from the pharmaceutical and agrochemical industries. The company recorded a healthy growth of ~23 percent y-o-y in FY2020 (provisional) to Rs.136.92 crore compared to Rs.111.57 crore in FY2019 and is expected to sustain the growth in FY2021 given the increase in demand of the products from the pharmaceutical industry. Further, the rating is also supported by experienced management of the company followed by a long and established track record of operations in the chemical industry for around 25 years.

Incorporated in 1995, Nasense Labs Private Limited (NLPL) is engaged in the manufacturing of fine chemicals and speciality molecules used in pharmaceutical and agro-chemical industries. The company manufactures a wide range of Sodium, Lithium, Potassium, Magnesium, Pyridine and Zinc derivatives. The company has its own manufacturing facility located at Hyderabad, Telangana with an installed capacity of 3000 MT of products per annum.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of NLPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations for around 25 years with experience management**
  Incorporated in 1995, NLPL has engaged in manufacturing of speciality chemicals for around 25 years. The founder of the company, Mr. GRK Raju has an experience of over 40 years in the Chemical and Bulk Drug industry and the Director of Research and Process Development, Mr. YP Rao is a renowned specialist in Process Design and Optimization with an experience of 35 years in the aforementioned industry. The company is also promoted by a listed entity NACL Industries Limited who specializes agrochemicals and is managed by a team of professionals. The company benefits from its well-diversified product portfolio of Sodium, Lithium, Potassium, Magnesium, Pyridine and Zinc derivatives. Further, the extensive experience of the management has helped the company to establish long-term relationships with well-established players in the pharmaceutical and speciality chemical industries as its customers. Moreover, their experience has also helped in building healthy relationships with its suppliers.

  Acuité believes that NLPL will continue to enjoy the benefit of its diversified product portfolio and established a relationship with customers and suppliers over the medium term.

- **Improvement in performance of operations throughout the years**
  Revenue from operations of the company has witnessed an increase of 15 percent CAGR in FY2017-2020 (provisional) period. The company has recorded a strong ~23 percent y-o-y growth in revenues for FY2020 (provisional) to Rs.136.92 crore compared to Rs.111.57 crore in FY2019. The increase in revenue from operations was majorly on account of a rise in demand for its well diversified product portfolio, especially in the pharmaceutical industry. The company is also diversifying its revenue base with exports gradually increased from 7.5 percent in FY2019 to 12.3 percent in FY2020 (provisional) of the total revenue generated. The growth in revenues is expected to sustain in FY2021 on account of increasing demand from the pharmaceutical industry. However, the operating profit margin which stood at 11.29 percent in FY2020 (provisional) has remained volatile over the years on account of volatility in raw material prices and high research and development expenses for the development of new products.

  Acuité believes that the ability of the company to increase the scale of operations would be the key rating sensitivity factor over the medium term.

- **Healthy financial risk profile**
  The financial risk profile of NLPL remained healthy marked by an increase in tangible net worth to Rs.71.50 crore as on 31 March, 2020 (provisional) as compared to Rs.68.02 crore in FY2019. The total debt outstanding has increased moderately to Rs.46.43 crore as on 31 March, 2020 (provisional) compared to Rs.43.03 crore same period last year. The increase in debt in mostly on account of a fresh term loan taken by NLPL for the installation of an Effluent Treatment Plant at the existing manufacturing unit. However, the net cash accruals of NLPL remained adequate at Rs.7.62 crore in FY2020 (provisional) to service the debt obligations of Rs.2.51 crore during the same period. The gearing level of the company remained healthy at 0.65 times as on 31 March, 2020 (provisional). The debt coverage indicators of the company remained adequate marked by Interest Coverage Ratio of 2.37 times in FY2020 (provisional) as against 2.05 times in FY2019 and the TOL/TNW ratio stood at 1.23 times in FY2020 (provisional) as compared to 0.06 times in FY2019.

  Acuité believes that the financial risk profile of NLPL will remain healthy over the medium term on account of healthy net worth and in the absence of any major debt-funded capex plans.

Weaknesses

- **High working capital operating cycle**
  The company's operations are highly working capital intensive as evident from Gross Current Asset (GCA) days of 247 days as on 31 March, 2020 (provisional) as against 290 days same period last year. The high GCA days are mostly driven by high inventory days of 189 days as on 31 March, 2020 (provisional) as the company maintains a high level of stock for a wide array of chemicals to serve its customers in time. The debtor's days of the company stood at 51 days as on 31 March, 2020 (provisional) as against 75 days as on 31 March, 2019. The high working capital cycle has led the company to fully utilize its working capital limits over the past six months ended in August, 2020.

  Acuité believes that the operations of the company to remain working capital intensive on the medium term on account of high inventory levels in the business.

- **Profitability susceptible to fluctuations in raw material cost and high R&D expenses**
  The major raw material procure by the company is chemicals. The prices of the same are fluctuating in nature, leading to volatility in operating profit margins of the company. The company procures ~89 percent of its raw materials from the domestic market and the rest are imported from other countries. Apart from the raw material cost, the operating margin of the company is also susceptible to the expenses incurred in R&D (Research and Development) for developing new products from time to time. The company recently has entered into a new segment known as "Pheromones" which will be used in the agrochemical industry. Such developments require high R&D expenses, which also impact the operating margins of the company.

Liquidity position: Adequate

The company has an adequate liquidity position, marked by healthy net cash accruals against its maturing debt obligations. The company had NCA of Rs.7.62 crore as against the maturing debt obligation of Rs.2.51 crores in FY2020 (provisional). The cash accruals of NLPL are estimated to remain around Rs.8.82 - 13.98 crore during 2021-23 while its repayment obligation is estimated to be around Rs.2.80 – 3.20 crore during the same period. However, the liquidity is partially offset by high working capital requirement through bank lines that have been 100 percent utilized over the last six months ended August, 2020. The full utilization of bank limits is on account of high working capital operations of the company market by high GCA days of 247 days as on

31 March, 2020. Further, the company has availed the COVID-19 moratorium as per RBI guidelines and had availed temporary overdraft from the bank in the past. The company maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2020 (provisional). The current ratio stands average at 1.29 times as on March 31, 2020 (provisional). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals with moderate repayments over the medium term.

Rating Sensitivities

- Improvement in scale of operations backed by healthy demand for chemicals
- Any further deterioration in the working capital management and operating margin will have a negative bias on the rating

Material Covenants

None

Outlook: Stable

Acuité believes that NLPL will maintain a 'Stable' outlook in the medium term on the back of the extensive experience of the management and increase in business operations. The outlook may be revised to 'Positive' in case of a significant improvement in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital operations, deterioration in the liquidity position or financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	136.92	111.57
PAT	Rs. Cr.	4.66	4.89
PAT Margin	(%)	3.40	4.38
Total Debt/Tangible Net Worth	Times	0.65	0.63
PBDIT/Interest	Times	2.37	2.05

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Nov-2019	Cash Credit	Long Term	23.00	ACUITE BB- (Indicative)
	Term Loans	Long Term	2.94	ACUITE BB- (Indicative)
	Proposed Term Loan	Long Term	5.06	ACUITE BB- (Indicative)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Indicative)

	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Indicative)
06-Sep-2018	Cash Credit	Long Term	23.00	ACUITE BB-/Stable (Assigned)
	Term Loans	Long Term	2.94	ACUITE BB-/Stable (Assigned)
	Proposed Term Loan	Long Term	5.06	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Assigned)

*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	26.00	ACUITE BB+/Stable (Upgraded from BB-/Stable)
Term Loans	May, 2017	12.25%	Oct, 2020	1.87	ACUITE BB+/Stable (Upgraded from BB-/Stable)
Term Loan	Jan, 2020	12.35%	May, 2024	3.57	ACUITE BB+/Stable (Assigned)
Term Loan (CELC)	April, 2020	8.00%	Sep, 2022	2.60	ACUITE BB+/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE BB+/Stable (Upgraded from BB-/Stable)
Proposed WCTL	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.21	ACUITE BB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

**Rs.5.00 crore interchangeability of LC limit to CC Limit*

Contacts

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About Acuité Ratings & Research:
Acuité Ratings & Research 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.