

## Press Release

Jambuwala Pharmaceuticals Limited

October 12, 2022

## Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE B+   Stable   Downgraded	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.10.00 crore bank facilities of Jambuwala Pharmaceuticals Limited (JPL). The outlook is '**Stable**'.

### Rationale for rating downgrade

The rating of JPL is downgraded on account of company's nascent stage and modest scale of operations with below average financial risk profile and highly working capital intensive nature of operations. The rating however draws comfort from the company's experienced management and its reputed clientele. Ability of the company to increase its scale of operations & profitability while improving its financial risk profile and any further deterioration in the working capital cycle will remain a key rating sensitivity factor.

### About the Company

JPL incorporated in the year 2017, is an Ahmedabad based company which is engaged in manufacturing and trading of generic medicines for human consumption. The company has set up a fully automated facility for production of capsules and tablets. The company was set up by Mr. Pranlal Bhailal Shah and Mr. Hiren Vijaykumar Doshi. The manufacturing facility is located in Sanand, Ahmedabad with an annual installed capacity of 6000 lakhs of tablets and 1500 lakhs of capsules respectively.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of JPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

##### Experienced management

JPL is promoted by Mr. Kamal Pranlal Shah, who possess more than a decade of experience in various field and is responsible for the overall financial and administrative operations of the company. He is supported by the other directors, Mr. Pranlal Bhailal Shah and Mr. Chintan

Pranlal Shah who possess more than five decades and more than a decade of experience in the administration and accounts in the group companies. Apart from this, Mr. Hiren Vijaykumar Doshi, who heads the production division of the company has more than three decades of experience in the pharmaceutical industry and has been associated with reputed pharmaceutical companies.

Acuité believes that the expertise of the management across various field is expected to benefit the company.

### **Reputed clientele**

JPL has established relationship with various reputed pharmaceutical companies like IPCA Laboratories Limited, Antila Lifescience Private Limited, HBC Lifescience Private Limited amongst others which provides the required raw materials and quality control expertise for supervision to the company for carrying out the job-work activities.

### **Weaknesses**

#### **Below average financial risk profile**

Financial risk profile of JPL is below average marked by low networth, moderate gearing and low debt protection metrics. The networth of the company has declined to Rs.3 Cr as on 31 March, 2022 as against Rs.5 Cr as on 31 March, 2021 on account of accumulated losses. The gearing (debt-equity) has marginally increased to 2.60 times as on 31 March, 2022 as against 2.15 times as on 31 March, 2021 on account of decline in the networth. The gearing of the company is further expected to increase on account of low networth and increase in the debt profile considering the requirement of availing the unutilised short-term working capital limit in the near to medium term. The total debt of Rs.9 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.5 Cr and unsecured loans from directors of Rs.4 Cr.

The interest coverage ratio and DSCR both stood lower at same level of 1.41 times for FY2022 as against 2.01 times for FY2021 on account of absence of any current maturities of the existing long-term debt. The Net Cash Accruals to Total debt stood lower at 0.02 times for FY2022 as against 0.04 times for FY2021. The Total outside liabilities to Tangible net worth stood high at 3.18 times for FY2022 as against 2.30 times for FY2021.

Acuité believes that ability of JPL to improve its financial risk profile in the near to medium term will remain a key monitorable.

#### **Nascent stage and modest scale of operations**

JPL reported modest revenue of Rs.2.57 Cr for FY2022 as against Rs.2.59 Cr in FY2021 considering the company being at its nascent stage of operations, since it got incorporated in the year 2017 and the commercial operations commenced from June 2020 onwards. Despite an overall increase in the manufacturing and job-work activities during FY2022 as against FY2021, the company still generated lowest revenue at a similar level due to its slowdown in the trading and commission-based activities during the same period.

The operating margin of the company has further reduced to 26.15 percent in FY2022 as against 30.92 percent in FY2021 on account of its modest operating performance as well as the losses have also increased further during the year due to an increase in the depreciation and interest cost.

For the current year FY2023, the company has achieved lowest sales of around Rs.1.14 Cr as on August 2022. Acuité believes that JPL's ability to improve its scale of operations in near to medium term will remain a key rating sensitivity factor.

#### **Working capital intensive operations**

The operations of JPL are highly working capital intensive marked by its Gross Current Assets (GCA) of 290 days for FY2022 as against 454 days for FY2021. This is primarily on account of high inventory days which stood at 127 days in FY2022 as against 10 days in FY2021. Inventory cycle of the company has increased on account of overall increase in the purchase of raw materials required for producing the various tablets and capsules and due to which the creditors cycle has increased to 303 days in FY2022 as against 27 days in FY2021. On the other

hand, debtors cycle of the company has improved and stood at 110 days in FY2022 as against 665 days in FY2021.

Acuité believes that any further deterioration in the working capital cycle will remain a key monitorable.

### Rating Sensitivities

- Ability to improve financial risk profile
- Ability to improve scale of operations and profitability
- Any further elongation in working capital cycle

### Material covenants

None

### Liquidity position - Stretched

JPL has stretched liquidity position marked by low net cash accruals (NCA) against no maturing debt obligations. The company generated cash accruals in the range of Rs.0.03 Cr to Rs.0.20 Cr during FY2020 to FY2022 against no repayment obligation during the same period. Going forward the NCA are expected of ~Rs.1 Cr for period FY2023-FY2024 against repayment obligation of ~Rs.2 Cr for the same period. The working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 290 days for FY2022 as against 454 days for FY2021 on account of high inventory days during the same period. The short-term working capital limit from the bank however remained unutilised during FY2022 as the company is meeting its working capital requirements through its receipts from trading and job work income as well as unsecured loans from promoters. Current ratio stands at 1.08 times as on 31 March 2022.

Acuité believes that the liquidity of JPL is likely to remain stretched over the medium term on account of generating low net cash accruals against its debt obligations.

### Outlook: Stable

Acuité believes that JPL will maintain 'Stable' outlook over the medium term on account of its experienced management and reputed clientele. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	2.57	2.59
PAT	Rs. Cr.	(1.51)	(1.06)
PAT Margin	(%)	(58.94)	(40.86)
Total Debt/Tangible Net Worth	Times	2.60	2.15
PBDIT/Interest	Times	1.41	2.01

### 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

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

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Jul 2021	Cash Credit	Long Term	2.00	ACUITE BB-   Stable (Upgraded from ACUITE B)
	Proposed Bank Facility	Long Term	2.25	ACUITE BB-   Stable (Upgraded from ACUITE B)
	Term Loan	Long Term	5.75	ACUITE BB-   Stable (Upgraded from ACUITE B)
09 Feb 2021	Cash Credit	Long Term	2.00	ACUITE B (Issuer not co-operating*)
	Term Loan	Long Term	5.75	ACUITE B (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	2.25	ACUITE B (Issuer not co-operating*)
19 Nov 2019	Cash Credit	Long Term	2.00	ACUITE B   Stable (Reaffirmed)
	Term Loan	Long Term	5.75	ACUITE B   Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	2.25	ACUITE B   Stable (Reaffirmed)
29 Nov 2018	Proposed Cash Credit	Long Term	2.00	ACUITE B   Stable (Assigned)
	Proposed Term Loan	Long Term	6.00	ACUITE B   Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.00	ACUITE B   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Small Industries Development Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+   Stable   Downgraded ( from ACUITE BB- )
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE B+   Stable   Downgraded ( from ACUITE BB- )
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	5.75	ACUITE B+   Stable   Downgraded ( from ACUITE BB- )

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### About Acuité Ratings & Research

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