Acuite
RATINGS & RESEARCH

Press Release

Sri Vyjayanthi Labs Private Limited

D-U-N-S® Number: 86-453-1352

February 12, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* *Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs. 8.00 crore bank facilities of Sri Vyjayanthi Labs Private Limited (SVPL). The outlook is **'Stable'**.

SVPL, incorporated in July 1982, was taken over by the current management Mr. Mudunuri Venkata Satyanarayana Raju and Mrs. Sree Devi Mudunuri in 2008 from the previous management. The company is engaged in the manufacture of active pharmaceutical ingredients (APIs) and pharmaceutical intermediates. SPPL has its manufacturing facility at J.N.Pharma City in Visakhapatnam with an installed capacity of 50 Metric Tons Per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established relationships with large pharmaceutical companies**

  Mr. Mudunuri Venkata Satyanarayana Raju has nearly three decades of experience in pharma industry. Over the period, the company has developed relationships with its customers such as Aurobindo Pharma Limited, Sun Pharmaceiticals Limited, Mylan Laboratories Limited, Dr. Reddy Labs Limited, among others to ensure regular business. SVPL is licensed to manufacture around 42 products in the therapeutic segments including cardiovascular, anti-diabetic analgesic, anti-infective and antibiotic, among others. The diverse range of products and reputed clientele helped in reporting a compound annual growth rate (CAGR) of about 22 per cent over three years through FY2018. Acuité believes that SVPL is expected to continue to enjoy the support from its healthy clientele, promoter's experience and product portfolio over the medium term.

- **Efficient working capital management**

  SVPL's operations are efficiently managed as evident from its Gross Current Assets (GCA) of 111 days as on March 31, 2018 as against 107 days as on March 31, 2017. It maintains inventory of less than a month owing to healthy relations with its suppliers. The customers are given a credit of about 90-120 days, and most of the collections are on a timely basis within two months. High credit to its reputed clientele and low working capital lines resulted in high bank limit utilisation at about 99 per cent for nine months through December 2018. Acuité believes that in the absence of significant capex plans, its accruals are expected to support in incremental working capital requirements over the medium term.

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 API's and intermediates industry. The scale of operations have remained modest with an operating income of Rs.26.36 crore in FY2018 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 and revenue profile.

- **Moderate financial risk profile**

The financial profile of SVPL is moderate marked by moderate net worth, moderate gearing (debt-to-equity) and total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. The net worth is modest at Rs.2.91 crore as on 31 March, 2018, an increase from Rs.1.99 crore in FY2017, mainly due to accretion of reserves. Gearing is moderate at 1.12 times in FY2018, improved from 2.40 times in FY2016 and TOL/TNW is high at 4.12 times in FY2018 improved from 6.58 times in FY2016. High TOL/TNW is owing to high amount of payables for supplies and expenses besides working capital debt. Debt protection metrics of Interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are comfortable at 4.98 times and 0.52 times respectively in FY2018. SVPL is implementing a moderate capex of about Rs.1.5 crore. The cash accruals are expected in the range of Rs.1.7-2.0 crore against repayment obligations of Rs.0.33 crore. Acuité believes that modest accruals vis-à-vis its repayment obligations, modest growth in revenues and in absence of any significant capex, the financial risk profile is expected to improve marginally over the medium term.

Liquidity Position:

SVPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. SVPL generated cash accruals of Rs.0.70 - 1.7 crore over the last three years through FY2018; against which its repayment obligations were about Rs.0.35 crore. SVPL's cash accruals are estimated in the range of Rs.1.50 - 2.00 crore over the medium term against which its maturing debt obligations are about Rs.0.35 crore per annum leaving adequate cushion for its working capital management and to part finance capex, if any. The company is conservative on debt approach as its bank lines of Rs.3.0 crore have been fully utilised to support its increasing scale of operations. SVPL's DSCR stands healthy at 3.00 times in FY2018. The current ratio of the SVPL is weak at 0.85 times as on March 31, 2018 due to higher reliance on suppliers. Acuité believes that the liquidity of SVPL continues to remain moderate supported by moderate accruals to support the incremental working capital requirements.

Outlook: Stable

Acuité believes that SVPL 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. 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 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	26.36	22.06	17.61
EBITDA	Rs. Cr.	2.63	2.13	2.02
PAT	Rs. Cr.	0.92	0.38	0.08
EBITDA Margin	(%)	9.98	9.64	11.47
PAT Margin	(%)	3.51	1.71	0.46
ROCE	(%)	22.14	16.73	25.62
Total Debt/Tangible Net Worth	Times	1.93	3.07	4.09
PBDIT/Interest	Times	4.98	2.71	2.21
Total Debt/PBDIT	Times	2.14	2.87	3.55
Gross Current Assets (Days)	Days	111	107	104

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

None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.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

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
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB / Stable
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+

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About Acuité Ratings & Research:
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