

Press Release

Nifty Labs Private Limited

December 03, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.57.00 Cr.
Long Term Rating	ACUITE BBB-/ Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.57.00 crore bank facilities of Nifty Labs Private Limited (NLPL). The outlook is '**Stable**'.

Hyderabad-based, NLPL was incorporated in 2005 by Mr. D. Kesava Reddy along with Mr. B. Krishna Reddy, Mr. M. Kishore Reddy and Mr. Y. Bharath Reddy. The company is engaged in manufacturing active pharmaceutical ingredients and advanced drug intermediates. NLPL has two research and development labs. The company has regulatory approvals obtained from global regulatory agencies like U.S. Food and Drug Administration (USFDA), European Medicines Agency (EU-GMP) and others for majority of its APIs, which help to supply products to regulated markets as well. Company earns ~65% of its revenue from export market.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Extensive experience of the promoters in the pharmaceutical industry**

NLPL is promoted by Mr. D. Kesava Reddy along with Mr. B. Krishna Reddy, Mr. M. Kishore Reddy and Mr. Y. Bharath Reddy. The promoters of the company are engaged in the same industry for more than two decades through various entities including Dr. Reddy's Laboratories Limited and Hetero Drugs Limited. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers of the company include reputed names like Aurobindo Pharma Limited, Lupin Limited, Alkem Labs Ltd, Zydus Healthcare Limited, Cadila Pharmaceuticals Limited amongst others with no major concentration in revenues. NLPL has booked gross revenue of ~Rs.60.71 crore from April to August 2019 and have an unexecuted order book position of ~Rs.25.51 crores showing adequate revenue visibility over the medium term.

- **Moderate financial risk profile**

NLPL's financial risk profile is moderate, marked by a moderate networth, low gearing and above average debt protection metrics. NLPL's networth is moderate at around Rs.38.92 crores as on March 31, 2019 (Provisional). The networth levels have seen significant improvement over the last two years through FY 2019 on account of equity infusion of Rs.3.00 crore by the promoters and healthy accretion to reserves during the same period. The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing levels of 1.25 as on March 31, 2016. The leverage levels continue to remain low to around 0.77 times as on March 31, 2019 (Provisional). NLPL has moderate cash accruals to the tune of about Rs.7.67 crores to minimize its reliance on external debt leading to healthy gearing and debt levels of 0.77 times and Rs.30.14 crores as on March 31, 2019 (provisional). NLPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.8.50-9.50 crores which are comfortable to support its current working capital and capex requirement. As a result, the gearing is expected to remain moderate to around 0.60 times as on March 31, 2021 on back of absence of any major debt funded capex plan.

Acuité expects the financial risk profile to remain moderate over the medium term on account of healthy accretion to net worth and conservative leverage policy. Further, any major debt funded capex would remain key sensitivity.

Weaknesses

• Working capital intensive operation

NLPL's operations are working capital intensive as reflected by its gross current asset (GCA) days of around 230 days as on March 31, 2019 (provisional). The company imports a significant portion (~40 percent) of its raw material requirements and therefore maintains an inventory of around 115 days as the in-transit time is around 30 days. The entire product is order backed and have work in progress inventory of ~75 days leading to higher reliance on working capital limits. However, the working capital is supported by extended credit period from suppliers of ~150 days. Further, it allows a credit period of 90-120 days to its customers to acquire new clientele and penetrate into newer territories. NLPL's working capital limits over the last twelve months period was fully utilized.

Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company to cater to export orders and extended credit period offered to customers.

• Profitability susceptible to forex risk coverage:

The company procures ~35-40 per cent of its total raw material requirements, while export constitutes 60-65 per cent of its total sales, thereby providing a natural hedge to certain extent. The company does not enter into forward contracts to hedge the balance forex exposure thus any adverse movement in the forex rate can impact the profitability margins.

Rating Sensitivities

- Decline in the profitability margins or elongation of the working capital cycle leading to deterioration in the financial risk profile and liquidity position.
- Significant debt funded capex beyond expected level leading to deterioration in capital structure.
- Higher than expected equity infusion, to reduce reliance on external borrowing could lead to positive rating action.
- Delay in recovery of ECGC claim could lead to higher working capital requirement, thus affecting its profitability margins.

Material Covenants

None.

Liquidity Position: Adequate

The company's liquidity position is adequate marked by healthy NCA to CPLTD cushion of ~2.75 times. The company has GCA of 230 days in FY2019 (provisional) mainly emanating from higher inventory holding days of ~115 days and debtor of 93 days in FY2019 (provisional). The bank limit utilisation remained fully utilized for the six months ended August 31, 2019. Utilisation is expected to remain high on account of large working capital requirement. The company would require additional working capital funding of ~Rs.5.00 crore to support its operations. Expected cash accrual of over Rs 8.50-9.50 crore over FY20-22 and is likely to be sufficient against term debt obligation of ~Rs 0.50 crore in FY20-22, respectively. The remaining accrual will cushion liquidity. The promoters are resourceful in supporting the operations as reflected in equity infusion of Rs.3.00 crore over the last two years and additional Rs.2.50 crore is expected to be infused by FY2020. Unencumbered cash and bank balance stood at Rs.5.00 crore as on March 31, 2019 (provisional). Current ratio was moderate at 1.08 times as on March 31, 2019 (provisional).

Outlook:

Acuité believes that NLPL will continue to benefit over the medium term due to its established market position and healthy relations with its customers and suppliers. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	151.72	137.40	125.11
EBITDA	Rs. Cr.	15.32	13.55	11.80
PAT	Rs. Cr.	4.74	3.45	1.99
EBITDA Margin	(%)	10.10	9.86	9.43
PAT Margin	(%)	3.13	2.51	1.59
ROCE	(%)	18.08	16.88	15.13
Total Debt/Tangible Net Worth	Times	0.77	0.91	1.10
PBDIT/Interest	Times	2.69	2.17	1.90
Total Debt/PBDIT	Times	1.97	2.18	2.54
Gross Current Assets (Days)	Days	230	276	243

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

INDIA RATINGS, vide its press release dated June 17, 2019 has denoted the rating of Nifty Labs Private Limited as 'IND BB+/IND A4+ (ISSUER NOT COOPERATING)' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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/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	25.00	ACUITE BBB-/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	11.50	ACUITE A3
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3

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About Acuité Ratings & Research:

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