

Press Release

Nifty Labs Private Limited

February 23, 2021

Rating Reaffirmed and Assigned



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs.57.00 Cr. |
| Long Term Rating | ACUITE BBB-/Stable (Reaffirmed & Assigned) |
| Short Term Rating | ACUITE A3 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and reaffirmed the 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**'.

About the company

Hyderabad-based, Nifty Labs Private Limited, 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 of 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. The Company earns ~35 percent of its revenue from the export market.

Rationale for Rating Reaffirmation

The rating reaffirmation on the bank facilities of NLPL factors in its established track record of operations, experienced management, improving scale of operations, satisfactory profitability margins and moderate financial risk profile. These rating strengths are partially offset by its moderate working capital management and susceptibility of margins to foreign exchange fluctuation risk.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operations, experienced management, improving scale of operations and moderate order book position

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 revenue. The aforesaid factors have helped the company in improving its revenues from Rs.137.40 Cr in FY2018 to Rs.149.06 Cr in FY2019 and Rs.165.80 Cr in FY2020. The improvement in revenue is on account of continuous orders from the existing clients and addition of new clients. NLPL generated revenue of Rs.97.70 Cr for 9M of FY2021 until December 2020. NLPL at present has unexecuted order book value of Rs. 23.25 Cr as on January 2021. This is expected to be completed by March 2021. Acuite believes that NLPL will continue to benefit from its experienced management over the medium term.

- **Satisfactory profitability margins albeit fluctuating**

The profitability margins stood at 9.86 percent in FY2018 and declined to 7.26 percent in FY2019 as a part of customer acquisition process, this in turn also led to increase in top line in FY2019. Later, in FY2020 the margins improved to 7.87 percent.

- **Moderate financial risk profile**

The financial risk profile of the company has remained moderate with moderate capital structure and debt protection metrics. Networth stood at Rs.38.79 Cr and Rs.35.53 Cr as on March 31, 2020 and 2019 respectively. The gearing stood at 0.76 times as on March 31, 2020 as against 0.85 times as on March 31, 2019, improved on account of increase in networth level and marginal decline in total debt levels. Debt protection metrics Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 2.16 times and 1.40 times respectively as on March 31, 2020 as against 1.82 times and 1.31 times respectively as on March 31, 2019. This is on account of increase in EBITDA in absolute terms. TOL/TNW stood at 2.70 times as on March 31, 2020. Acuite believes that the financial profile of the NLPL is expected to be at similar levels over the medium term owing to moderate accretion to reserves.

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, 2020. The company imports ~20 percent of its raw material requirements and therefore maintains an inventory of around 100 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 six months period was fully utilized. Acuite 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 margins susceptible to foreign exchange fluctuation risk**

The company is exposed to forex risk as ~35 percent are exports and ~20 percent are imports. Thus, it is moderately mitigated as the company is involved in both exports and imports; 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. Further, the transactions are through ECGC (Export Credit Guarantee Corporation) mode; this is to provide a variety of risk insurance products that cover losses and bad debts on exports. This is evident from the continuous forex gain the last three years review period. The company has generated a forex gain of Rs.1.48 Cr for FY2020.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity
- Delay in recovery of ECGC claim could lead to higher working capital requirement, thus affecting its profitability margins

Liquidity Position: Adequate

The liquidity position of the company remained adequate with adequate net cash accruals to service its debt obligations. The NCA's stood moderate at Rs.6.34 Cr in FY2020 as against the repayment obligation of Rs.2.79 Cr for the same period. The NCA's are expected to be in the range of Rs.5-9.50 Cr through FY21-23 against the repayment obligation of Rs.2.30-3.10 Cr. The current ratio stood at 1.04 times as on March 31, 2020. The cash and bank balance stood at Rs.0.23 Cr as on March 31, 2020. The working capital limits are almost fully utilized for the last 6 months ended January 2021. Acuite believes that the liquidity profile continues to be adequate supported by accruals.

Outlook: Stable

Acuite 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, impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 165.80 | 149.06 |
| PAT | Rs. Cr. | 3.27 | 1.35 |
| PAT Margin | (%) | 1.97 | 0.91 |
| Total Debt/Tangible Net Worth | Times | 0.76 | 0.85 |
| PBDIT/Interest | Times | 2.16 | 1.82 |

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 Material Covenants

None

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/view-rating-criteria-55>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|------------|-----------------|--------------------------------|
| 03-Dec-19 | Cash Credit | Long Term | 25.00 | ACUITE BBB-/ Stable (Assigned) |
| | Bank Guarantee | Short Term | 0.50 | ACUITE A3 (Assigned) |
| | Letter of Credit | Short Term | 11.50 | ACUITE A3 (Assigned) |
| | Proposed Bank Facility | Long Term | 15.00 | ACUITE BBB-/ Stable (Assigned) |
| | Proposed Bank Facility | Short Term | 5.00 | ACUITE A3 (Assigned) |

***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 | 24.00 | ACUITE BBB-/ Stable (Reaffirmed) |
| Term loans | Sept 2020 | 7.40 | June 2022 | 2.30 | ACUITE BBB-/ Stable (Assigned) |
| Term Loan | Sept 2020 | 7.40 | Aug 2024 | 5.00 | ACUITE BBB-/ Stable (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE A3 (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 11.50 | ACUITE A3 (Reaffirmed) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 8.70 | ACUITE BBB-/ Stable (Reaffirmed) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A3 (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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