

Press Release

S.V.R. Laboratories Private Limited

September 02, 2021



Rating Downgraded

Total Bank Facilities Rated*	Rs.7.10 Cr.
Long Term Rating	ACUITE BB+/ Stable (Downgraded)
Short Term Rating	ACUITE A4+ (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.7.10 crore bank facilities of S.V.R. Laboratories Private Limited (SVRLPL). The outlook is '**Stable**'.

About the company

S.V.R. Laboratories Private Limited (SVRLPL) is a Visakhapatnam based company incorporated in 2003 which is a part of SVR Group. The company is engaged in the business of manufacturing of bulk drug intermediaries.

About the Group

SVR Laboratories Private Limited (SVRLPL) is a Hyderabad based company incorporated in the year 2003. It is engaged manufacturing of bulk drug intermediaries. SVR Drugs Private Limited (SVRDPL) is a Visakhapatnam based company incorporated in the year 2010. It is engaged in the business of manufacturing of bulk drug intermediaries and Active Pharmaceutical ingredients (APIs). SVRLPL and SVRDPL together referred as SVR Group (SVRG), is promoted by Mr. Nageswara Rao, Mr. K.S Chowdary, Ms. Naga Durga who have more than three decades of experience in the Pharma industry.

Analytical Approach

Acuité has consolidated the business and financial risk profile of SVR Drugs Private Limited (SVRDPL), S.V.R. Laboratories Private Limited (SVRLPL) together referred as SVR Group (SVRG) to arrive at the rating. The consolidation is on account of common management, same line of business and significant operational and financial linkages. Extent of Consolidation: Full

Reason for Rating Downgrade

The rating downgrade on the bank facilities of SVRG is on account of continuous decline in the revenue over the last two financial years FY20 and FY21; further expected decline in the revenues for FY22. In FY19 and FY20, the revenue has dipped due to decline in raw material price, despite being the production quantity same, the decline in raw material has led to decline in sales. The working capital operations remained intensive, which led to fully utilization of bank limits that depicts stretch in liquidity position of the group.

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele base**

SVR Laboratories Private Limited (SVRLPL) is a Hyderabad based company incorporated in the year 2003. It is engaged in manufacturing of bulk drug intermediaries. SVR Drugs Private Limited (SVRDPL) is a Visakhapatnam based company incorporated in the year 2010. It is engaged in the business of manufacturing of bulk drug intermediaries and Active Pharmaceutical ingredients (APIs). SVR Group (SVRG) is promoted by Mr. Nageswara Rao, Mr. K.S Chowdary, Ms. Naga Durga who have more than three decades of experience in the Pharma Industry. The extensive experience of promoters has enabled to the company to develop established relationships with its customers and suppliers. The group supplies bulk drug intermediaries and Active Pharmaceutical ingredients (APIs) to the pharma companies like Dr. Reddy's, Mylan Laboratories Limited, Aurobindo Pharma Limited and few others. The

group is expected to continue to leverage its well-established relationship with reputed clients and suppliers.

Acuité believes that SVRG shall continue to benefit from its established position in the pharmaceutical industry, experienced management and established relationships with customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile of the group has remained moderate with moderate net worth, capital structure and debt protection metrics. The net worth of the group stood at Rs.47.90 Cr as on March 31, 2021 (Provisional) as against Rs.43.32 Cr in FY2020. The gearing has improved to 0.49 times as on March 31, 2021 (Provisional) as against 0.57 times, due to marginal decline in total debt levels and increase in networth due to increase in share capital. Interest Coverage Ratio improved to 4.90 times as on March 31, 2021 (Provisional) as against 4.40 times as on March 31, 2020. Debt Service Coverage Ratio improved to 2.63 times as on March 31, 2021 (Provisional) as against 2.60 times as on March 31, 2020. TOL/TNW stood at 1.68 times as on March 31, 2021 (Provisional) as against 1.99 times as on March 31, 2020.

Acuité believes that the financial risk profile of the group is expected to remain moderate over the near to medium term on account of moderate cash accruals and absence of any significant debt- funded capex.

Weaknesses

- **Working capital intensive nature of operations**

The working capital management of the group remained intensive stood at GCA days of 253 days as on March 31, 2021 (Provisional) as against 222 days as on March 31, 2020. The debtor days improved and stood at 74 days and 116 days as on March 31, 2021 (Provisional) and 2020 respectively. The inventory days stood at 181 days and 100 days as on March 31, 2021 (Provisional) and 2020 respectively. The creditor days stood at 179 days and 164 days as on March 31, 2021 (Provisional) and 2020 respectively. The working capital limits are almost 99 percent utilized for the last 6 months ended July 2021. Due to Covid-19 impact on the financial year end of FY2020, the payments from debtors delayed and the stretch of debtor days was mitigated by back to back payment to creditors. In FY2021, due to lower demand from Pharma companies led to increase in inventory. Acuité believes that working capital is expected to be moderately intensive over the medium term.

- **Decline in revenues for FY19-21 albeit improvement in profitability margins**

The revenues of the group have been declining continuously over the review period FY19-21. The revenues of the group stood at Rs.121.55 Cr for FY21 (Provisional) as against Rs.153.86 Cr for FY20 and Rs.222.52 Cr for FY19. Maltol is the key raw material; the price fluctuation of the material has impacted the revenues and profitability. In FY19 and FY20, the revenue has dipped due to decline in raw material price, despite being the production quantity same, the decline in raw material has led to decline in sales. In FY21, for SVR Laboratories Private Ltd, the increase in operational expenses and decline in sales due to low demand has led to losses in FY21. On the other hand, the demand for the bulk drugs and Active Pharmaceutical ingredients (API) has declined from pharma companies, which led to decline in sales for FY2021. The profitability margins of the group stood at 9.77 percent in FY21 (Provisional) as against 8.66 percent in FY20 and 7.44 percent in FY2019.

- **Susceptibility to fluctuation in raw material prices and regulatory risks**

The group operates in a highly competitive and fragmented industry and faces tough competition from various players in the market. The profitability margins of the group are susceptible to fluctuation of raw material prices. The imports of the group account to around 25-40 percent of total raw material purchases, which led to fluctuation of raw material prices on account of forex rates.

Rating Sensitivity factors:

- Lower than expected revenues and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Material Covenants: None

Liquidity Position: Adequate

SVRG has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.7.94 crore in FY2021 (Provisional) as against the repayment obligation of Rs.1.51 crore for the same period. The cash accruals are estimated to be around Rs.7-9 crore during 2022-24, while its repayment obligations in the range of Rs.0.12 crore to Rs.1.05 crore. The group maintains cash and bank balances of Rs.0.83 crore as on March 31, 2021 (Provisional). The current ratio stood moderate at 1.16 times as on March 31, 2021 (Provisional). However, the working capital limits of the group remains utilized at 98 percent for the last six months ended July 2021. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that SVRG will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management, deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	121.55	153.86
PAT	Rs. Cr.	3.33	3.81
PAT Margin	(%)	2.74	2.47
Total Debt/Tangible Net Worth	Times	0.49	0.57
PBDIT/Interest	Times	4.90	4.40

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

CRISIL, vide its press release dated March 31, 2021 had denoted the rating of S.V.R. Laboratories Private Limited as 'CRISIL BB+; Issuer not cooperating' on account of lack of adequate information required for monitoring of ratings.

ICRA, vide its press release dated August 21, 2020 had denoted the rating of S.V.R. Laboratories Private Limited as 'ICRA B+; 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>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Criteria for Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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
19-Jun-2020	Cash Credit	Long Term	6.00	ACUITE BBB-/Stable (Assigned)

	Proposed	Long Term	0.05	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	0.95	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.10	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+/Stable (Downgraded)
HDFC Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.95	ACUITE A4+ (Downgraded)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4+ (Downgraded)
Not Applicable	Proposed	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BB+/Stable (Downgraded)

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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 8,446 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.

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