

Press Release

SVR DRUGS PRIVATE LIMITED

June 19, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.20.50 Cr.
Long Term Rating	ACUITE BBB- / Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite 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.20.50 crore bank facilities of SVR DRUGS PRIVATE LIMITED (SVRDPL). The outlook is '**Stable**'.

About the company

SVR Drugs Private Limited (SVRDPL) is a Visakhapatnam based company incorporated in 2010 which is a part of SVR Group. The company is engaged in manufacturing of bulk drug intermediaries and Active Pharmaceutical ingredients (APIs).

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

Acuite has consolidated 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

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's established track record of operations and management experience has helped the group increase its revenue to Rs.222.52 crore in FY2019 from Rs.153.59 crore in FY2018. Further, SVRDPL and SVRLPL have booked revenues of Rs.146.00 crore, Rs.42.43 crore respectively for the eleven months ended as on February 29, 2020. The group is expected to continue to leverage its well-established relationship with reputed clients and suppliers.

Acuite 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 is moderate marked by moderate net worth, gearing and debt protection indicators. The tangible net worth of the group stood at Rs.39.52 crore as on 31 March, 2019 as against Rs.29.40 crore in the FY2018, the increase is due to accretion of profits to reserves. The gearing (debt-equity) and Total outside liabilities to Tangible Net Worth levels are moderate at 0.65 and 2.30 times respectively as on 31 March, 2019 vis-à-vis 0.53 and 2.39 times respectively as on 31 March, 2018. The total debt outstanding of Rs.25.81 crore as on 31 March, 2019, long term debt constitutes Rs.0.41 crore, unsecured loans constitutes of Rs.2.07 crore and short term debt of Rs.22.00 crore. The interest coverage ratio and net cash accruals to total debt are healthy at 7.28 times and 0.50 times respectively in FY2019 as against 5.55 times and 0.56 times respectively in FY2018. Interest coverage ratio has increased due to increase in EBITDA in absolute terms, NCA/TD deteriorated to 0.50 in FY2019 from 0.56 in FY2018 due to increase total debt on account of increase in short term debt when compared to previous year. SVR Group generated cash accruals of Rs.13.00 crores in FY2019 as against Rs.8.68 crore in FY2018.

The revenues of the company increased at a CAGR of around 38 per cent to Rs.222.52 crore in FY2019 as against Rs.115.83 crore in FY2017. While the operating margins were in the range of 9.-7 per cent. The moderate profitability levels coupled with moderate debt levels has led to healthy debt protection measures.

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**

SVRG's operations are working capital intensive with Gross Current Assets (GCA) of about 154 days in FY2019 as against 163 days in FY2018, this is on account of improvement in debtor days to 46 days in FY2019 as against 67 days in FY2018. The inventory days have marginally deteriorated and stood at 103 days in FY2019 as against 92 days in FY2018. However, SVR Group's bank limit utilization stood at an average of ~90 percent for the last six months ended April 2020.

• **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 35-40 percent of total raw material purchases, which led to fluctuation of raw material prices on account of forex rates.

Rating Sensitivity factors:

- Significant Improvement in revenues
- Any further deterioration in working capital

Material Covenants: None

Liquidity Position: Adequate

SVRG has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The group generated cash accruals of Rs.5.68-13.00 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs.1.92-1.33 crore over the same period. The cash accruals are estimated to be around Rs.9.75-11.10 crore during 2020-22, while its repayment obligations in the range of Rs.0.66 crore to Rs.0.32 crore. The group maintains cash and bank balances of Rs.0.16 crore as on March 31, 2019. The current ratio stood moderate at 1.08 times as on March 31, 2019. The promoter had also infused the funds of Rs.2.88 crore in FY20 which was due earlier. However, the working capital limits of the group remains utilized at 90 percent. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuite 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	222.52	153.59
PAT	Rs. Cr.	8.62	5.24
PAT Margin	(%)	3.87	3.41
Total Debt/Tangible Net Worth	Times	0.65	0.53
PBDIT/Interest	Times	7.28	5.55

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

ICRA ratings, vide its press release dated May 30, 2019 had denoted the rating of SVR Drugs Private Limited as 'ICRA BB; Issuer not cooperating' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'ICRA BB/Stable' vide its press release dated May 23, 2016.

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of Financial Ratios and Adjustments – <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of companies – <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

*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	15.00	ACUITE BBB-/Stable (Assigned)
Term Loan I	Not Applicable	Not Applicable	May 2023	1.00	ACUITE BBB-/Stable (Assigned)
Term Loan II	Not Applicable	Not Applicable	July 2022	2.00	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 (Assigned)

Contacts

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About Acuité Ratings & Research:

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