Press Release

Phytochem Remedies India Private Limited

September 29, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.17.54 Cr.
Long Term Rating	ACUITE BB-/Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs.17.54 Cr bank facilities of Phytochem Remedies India Private Limited (PRIPL). The outlook is **'Stable'**.

Rationale

The rating assigned factors in the experienced and resourceful promoters, improvement in revenue while maintaining profitability margins over the period of FY19-21, modest financial risk profile and adequate liquidity. The rating also takes into account ongoing capex undertaken by the company, led by favourable industrial policy introduced by Government of India in the State of Jammu. The rating assigned is however constrained by small scale of operation, project implementation risk of the debt funded capex and its impact on debt coverage indicators.

About the rated entity

Phytochem Remedies India Private Limited (PRIPL) was incorporated in 2002 by Ms. Beena Bohra and Ms. Aditi Bohra in Jammu, with the purpose of venturing into pharmaceutical industry. However, the company did not have any operations till 2014. The company entered into manufacturing of corrugated box in 2012 and commenced operations from 2014. PRIPL supplies corrugated box to the companies located in the state of Jammu. The company is currently managed by Mr. Niranjan Surana and Ms. Aditi Bohra as Directors.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced and resourceful management

The company is promoted by Mr. Niranjan Surana (Director) and Ms. Aditi Bohra (Director) and they have a track record of around 9 years in this line of business. Further, the promoters have also been infusing funds in the form of equity and unsecured loan over the years (promoters infused equity to the tune of Rs.1.85 Cr in FY20).

• Improvement in operating performance

The total revenue of the company increased at CAGR of around 14% during FY19-21 (Prov.). The company reported total revenue of Rs.9.82 Cr during FY21 (Prov.) as against Rs.8.52 Cr in FY20 (FY19-Rs.7.48 Cr). The same is led by increase in customer base. The operations of the company remain uninterrupted despite COVID-19, as PRIPL supplies boxes to pharmaceutical industry. The operating margins remained stable in the range of 6.62-9.91 per cent during FY19-21. The net profit for FY21 (Prov.) was Rs.0.44 Cr in FY21. The net profit margin has been in the range of 2.63-4.46 per cent during FY19-21. Acuite believes, the company will be able to improve its operating performance over coming years backed by favourable government policies and with increase in production capacity.

• Capacity addition and favourable industrial policy in Jammu

PRIPL has planned to install fully automated machine that would enable them to improve its scale of operations and supply boxes to its existing customers including FMCG companies such as Haldiram, Dabur, Kingfisher etc The capex is also complemented by favourable industrial policy introduced by Government

of India in the state of Jammu & Kashmir. The new policy includes capital investment and turnover subsidies, interest subsidies and GST refunds, both for existing and new plants. The company benefitted with other income to the tune of Rs.0.27 Cr in the form of GST refund and interest subsidy in FY21.
Acuite believes that the PRIPL is expected to benefit from favourable government policies which will help them in improving scale of operations in medium term.

- **Modest financial risk profile**

The debt-equity ratio remains at modest level and below unity as on March 31, 2021. The company has repaid the COVID-19 loan as on date. The promoters infused funds in the form of unsecured loans through sister concern, Bohra Agrifilms Private Limited (interest free) for supporting business operations. The Net Cash Accruals/Total Debt has been improving marginally during FY19-21 by 2bps and the same remained The same is backed by increase in Net Cash Accruals. The interest coverage ratio has also been improving during FY19-21 and on an average level remained at 3.47 times. The total outstanding liabilities to tangible net worth moderated to 1.52 times in FY21 as against 1.06 times FY20 due to increase in current liabilities in the form of trade payable. The debt-EBITDA on an average remained at 3.05 times during FY19-21. Acuite believes, the company will maintain its financial risk profile over the long term but the impact of the debt funded capex is expected to put pressure on the capital structure over medium term.

Weaknesses

- **Small scale of operations**

The scale of operations of the company is small as observed from the total revenue in the range of Rs.7.0-10.0 Cr during FY19-21 and modest tangible net-worth of Rs.4.78 Cr as on March 31, 2021 (Prov.).
Acuite believes with successful completion of the project, the scale of operations of the company is expected to improve over medium term.

- **Project Risk**

The company has planned to install a fresh fully automated production line. The project is being majorly funded through debt (~89% of total project cost) and capital infusion from promoters. The debt-tie up is expected to be done by October 2021 and the project is expected to be completed by April 2022 and achieve COD by May 2022. Risk associated with implementation of the project and offtake of the increased production will be key rating monitorable.
Acuite believes that timely completion of the project and offtake of the increased production capacity will impact the revenue profile of the company.

- **Working capital intensive nature of operations**

The operations of the company are working capital intensive as observed from the Gross Current Asset (GCA) days in the range of 157 to 225 days over past 3 years ended FY21 The higher Gross Current Asset days is on account of high inventory maintained by the company. The maintains 40-50 types of different material as per the requirement of various customers.

Rating Sensitivities

- The successful completion of capex within estimated time and cost.
- Any overrun in cost and time overrun, impacting financial risk profile of the comapny

Material Covenants

None

Liquidity Position: Adequate

The Net Cash Accruals of the company remains at adequate level at Rs.0.63 Cr in FY21 against Rs.0.51 Cr in FY20 (Rs.0.39 Cr in FY19). The company has a repayment obligation of Rs.0.04 Cr during current fiscal and the same has already been repaid as on date. The company is expected to avail additional term loan to the tune of Rs.13.06 Cr for capex. (Rs.7.40 Cr from Punjab and Sindh Bank and Rs.5.66 Cr from SIDBI). The term loans have 1 year of moratorium with long repayment tenure (excluding moratorium) of 6 (SIDBI) and 9 (for ~~PSB) years. The current ratio as on March 31, 2021 remained at 1.45 times. The NCA for projected period is~~

expected to be at Rs.0.71 Cr to Rs.2.76 Cr against the projected debt –repayment of Rs.0.88 Cr-Rs.1.77 Cr during F22-FY24. The average utilization of working capital borrowings for the past 12 months ending August 2021 remained at 84.71%
Albeit, the cash accruals of the company are adequate, however, monetization of capex would be crucial from rating perspective. The increase in debt should commensurate with increase in total operating in order to retain the adequate level.

Outlook: Stable
Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its experienced management and stable operations. The outlook may be revised to 'Positive' in case the company achieves higher than expected revenues and profitability, backed by successful commencement of the project. Conversely, the outlook may be revised to 'Negative' in case of a delay in completion of project or any cost overruns resulting in deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	9.82	8.52
PAT	Rs. Cr.	0.44	0.32
PAT Margin	(%)	4.46	3.80
Total Debt/Tangible Net Worth	Times	0.59	0.58
PBDIT/Interest	Times	4.46	3.35

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

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
- 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)- Not Applicable

***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
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE BB-/Stable (Assigned)
Proposed long term Bank Facility		Not Applicable	Not Applicable	Not Applicable	15.84	ACUITE BB-/Stable (Assigned)

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About Acuité Ratings & Research:

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