



Press Release
TOPNOTCH CHEMICALS PRIVATE LIMITED
March 06, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	5.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	30.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITÉ BBB-**' (read as **ACUITE Triple B minus**) and short-term rating of '**ACUITÉ A3+**' (read as **ACUITE A three plus**) on the Rs. 30.00 Cr. bank facilities of Topnotch Chemicals Private Limited (TCPL). The outlook is 'Stable'.

Rationale for Rating

The rating reaffirmed takes into account the established track record of operations of almost 3 decades in this line of business along with experienced management. However, the operating income of the group declined and stood at Rs.300.26 crore in FY 2023 as against 378.73 crore in FY 2022 and Rs. 365.82 crore in FY 2021. The rating favorably factors in the healthy financial risk profile of the group with a gearing of below unity as on March 31st, 2023. Further, it considers the adequate liquidity position of the group with moderate reliance on short term bank borrowings with an average utilization of 80-85% for last 12 months ended January 2024. However, the above mentioned strengths are constrained by working capital intensive nature of operations with a high GCA days of 199 days in FY 2023 and profitability is susceptible to fluctuations in prices of raw materials.

About Company

Topnotch Chemicals Private Limited (TCPL), incorporated in 1988, is a bulk drugs manufacturing company. It is one of the largest manufacturing and major player in Anti-Bacterials, Anti- Malarial, Anti-Foaming agents. Topnotch Chemicals Private Limited has registered office in Navi Mumbai. The current Directors of the firm are Mr. Vasant Ghisulal Jain and Mr. Khandu Vishnu Varal. The company has an installed capacity of 1200 MT in FY 2023.

About the Group

Calyx Chemicals and Pharmaceuticals limited (CCPL), incorporated in 1986, is engaged in manufacturing of ingredients for medicine and other chemical products. Currently Mr. Khandu Vishnu Varal, Mr. Sanket Khandu Varal, Mr. Ritik Vasant Jain and Mr. Vasant Ghisulal Jain are the directors of the company. The company has an installed capacity of 1825 MT in FY 2023.

Unsupported Rating

Not Applicable.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered consolidated financials of Topnotch Chemicals Private Limited and Calyx Chemicals and Pharmaceuticals Limited to arrive at the rating. The consolidation is on accounts of wholly owned subsidiary and similar lines of business.

Key Rating Drivers

Strengths

Established track record of operations along with experienced management.

TCPL, established in 1988, is a bulk drugs manufacturing company. It is one of the largest manufacturing and major player in Anti-Bacterials, Anti-Malarial, and Anti-Foaming agents. Thus, the company has an established track record of more than three decades in this line of business. The company is promoted by Mr. Khandu Vishnu Varal and Mr. Vasant Ghisulal Jain who possess industry experience of twenty five years. The experience of the promoters has helped the group to maintain a longstanding relationship with its customers and suppliers. However, the group has recorded a decline in operating income, stood at Rs.300.26 crore in FY 2023 as against 378.73 crore in FY 2022 and Rs. 365.82 crore in FY 2021. The decline in topline is on account of drastic reduction of selling price of the product although the volume sales has increased. Further, the group has achieved a revenue of Rs 314.43 crore till January 2024. The operating margin stood at 17.43% in FY 2023 as against 15.99% in FY 2022 on account of reduction of raw material cost of the product. Further, TCPL has 40-45 percent market share in Anti-Malaria drug (Arthemether and Lumefantrine).

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

Healthy Financial Risk Profile

The financial risk profile of the group stood healthy, marked by moderate net worth, healthy gearing (debt-equity) and comfortable debt protection metrics. The tangible net worth stood at Rs. 113.73 crore as on 31 March 2023 as against Rs. 123.01 crore as on 31 March 2022. The net worth is subdued in FY 2023 due to adjustment for preference shares subscribed by TCPL of CCPL which was earlier held by some other investment company. The group follows a conservative financial risk policy reflected through its peak gearing of 1.22 times as on 31 March, 2022. The gearing (debt-equity) stood at 0.80 times as on 31 March 2023 as compared to 1.22 times as on 31 March 2022 and 1.05 times as on 31 March, 2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.21 times as on 31 March 2023 as against 1.95 times as on 31 March 2022. Further the debt protection metrics stood comfortable marked by Interest Coverage Ratio stood at 4.02 times for FY 2023 as against 4.83 times for FY 2022. Debt Service Coverage Ratio (DSCR) stood at 3.30 times in FY 2023 as against 4.20 times in FY 2022. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.37 times for FY 2023 as against 0.29 times for FY 2022.

Acuité believes the financial risk profile of group may continue to remain healthy over the medium term with no major debt-funded capex plans.

Weaknesses

Working Capital Intensive Operations

The group have working capital intensive nature of operations marked by declining but high GCA Days of 199 days in the FY 2023 as against 233 days in FY 2022. Higher GCA days are on account of higher other current assets consisting of advance tax paid and also receivables and recoveries. The receivables days stood at 103 days in FY 2023 as compared with 106 days as on FY 2022. Receivables for the group as on January 2024 stands at Rs. 58.78 crore and all the debtors for the group currently are less than 6 months. The average credit period allowed is up to 90 days, with some customers making advance payments. The inventory holding days stood at 111 days in FY 2023 as compared with 101 days in FY 2022. The inventory days are higher as the group needs to maintain 30-40 days of raw material inventory, and conversion of material to finished good take another 60 days and then finished good holding is of 15 days. The creditor days of the company stood at 85 days in FY 2023 as against 108 days in FY 2022. The usual credit allowed by the suppliers is up to 90 days. However, the average utilization for fund based working capital limits stood moderate at 80-

85 percent for twelve months ended January 2024 and non-fund based utilization at 31.96 percent.

Acuite believes that working capital operations of the group may continue to remain intensive, considering the nature of the business wherein high inventory requirements are there.

Highly competitive and fragmented industry

The Pharmaceutical industry is highly competitive and fragmented with several players in the market. The intense competition and low value addition in the pharma industry have resulted in low operating margins.

Rating Sensitivities

Steady growth in revenues and profitability margins.

Sustenance of healthy financial risk and liquidity profile.

Elongation in working capital cycle resulting in stretched liquidity.

Liquidity Position

Adequate

The group's liquidity position is adequate, marked by sufficient net cash accruals against the maturing debt obligations. The group has generated net cash of Rs. 33.43 crore in FY 2023. In addition, it is expected to generate sufficient cash accrual in the range of Rs.33 - 43 crore against the maturing repayment obligations of Rs.7.03 – Rs.7.54 crore over the medium term. Further, fund-based average limit utilization stood moderate at 80- 85 percent for the last twelve months ended January 2024, with non-fund-based utilization at 31.96 percent. The current ratio stands at 1.66 times as on March 31, 2023, as against 1.73 times as on 31 March 2022. Further, NCA/TD (Net Cash Accruals to Total Debt) stood at 0.37 times in FY23 as against 0.29 times in FY 2022.

Acuite believes that group's liquidity position would remain adequate over the medium term on account of expected steady cash accruals.

Outlook: Stable

Acuite believes that Topnotch Chemicals Private Limited's outlook will remain 'Stable' over the medium term backed by its healthy financial risk profile, experience of management and revenue visibility due to increase in demand. The outlook may revised to 'Positive' in case the company registers higher than-expected growth in its revenue and profitability while restricting significant elongations in working capital cycle and maintaining the healthy the financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than expected growth in revenues and profitability, or, in case of deterioration in the company's business or financial risk profile or significant elongation in working capital cycle leading to stretch in liquidity.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	300.26	378.73
PAT	Rs. Cr.	20.39	27.95
PAT Margin	(%)	6.79	7.38
Total Debt/Tangible Net Worth	Times	0.80	1.22
PBDIT/Interest	Times	4.02	4.83

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

Not Applicable

Any Other Information

None.

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Feb 2024	Letter of Credit	Short Term	5.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE BBB- Stable Reaffirmed
Yes Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A3+ Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Calyx Chemicals & Pharmaceuticals Ltd is the wholly owned subsidiary of Topnotch Chemicals Private Limited.

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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