

February 26, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	10.00	SMERA B-/Stable (Assigned)
Term Loans	3.15	SMERA B-/Stable (Assigned)
Bank Guarantee	0.50	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B-**' (**read as SMERA single B minus**) and '**SMERA A4**' (**read as SMERA A four**) to the above-mentioned bank facilities of Embiotic Laboratories Private Limited (ELPL). The outlook is '**Stable**'. The ratings are constrained by the company's low profit margins, weak debt protection metrics and stretched liquidity position amidst intense competition prevalent in the pharmaceutical formulations industry. The ratings are also constrained by the company's irregularities in depositing statutory dues during the past five years. However, the ratings are supported by the company's experienced management, healthy revenue growth and diversified product profile.

ELPL, incorporated in 1988, is a Bengaluru-based company engaged in manufacturing of pharmaceutical formulations. ELPL's net profit margin is low at 0.71 per cent in FY2012-13 (refers to financial year, April 01 to March 31). The company has weak debt protection metrics reflected in high leverage at 2.87 times as on March 31, 2013 and low interest coverage ratio of 1.48 times in FY2012-13. Moreover, ELPL's net worth is low at Rs.4.27 crore as on March 31, 2013. The company has a stressed liquidity position evidenced by high utilisation (99.52 per cent) of cash credit limit during July 2013 to December 2013. ELPL faces intense competition from several players in the pharmaceutical formulations industry. The company has been irregular in depositing statutory dues (employee provident fund and tax deducted at source) during the past five years.

ELPL benefits from its experienced management. Mr. Kantilal V. Jain, director of ELPL, has around forty years of experience in the pharmaceuticals industry. ELPL's revenues increased at a healthy compound annual growth rate (CAGR) of 20 per cent during FY2008-09 to FY2012-13. The company has a diversified product portfolio, which includes pharmaceutical formulations in the form of oral solid dosages, liquids and external preparations.

Outlook: Stable

SMERA believes that ELPL will continue to benefit over the medium term from its long track record of operations and diversified product profile. The outlook may be revised to 'Positive' in case the company registers improvement in liquidity metrics, working capital management and profitability. Conversely, the outlook may be revised 'Negative' in case of deterioration in the company's profit margins and capital structure.

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About the company

ELPL, incorporated in 1988, is a Bengaluru-based company promoted by Mr. Kantilal V. Jain and Mr. Harish K. Jain. ELPL is engaged in manufacturing of various pharmaceutical formulations in the form of oral solid dosages, liquids and external preparations.

For FY2012–13, ELPL reported PAT of Rs.0.34 crore on total operating income of Rs.47.36 crore, as compared with PAT of Rs.0.16 crore on total operating income of Rs.31.33 crore for FY2011–12. ELPL's net worth stood at Rs.4.27 crore as on March 31, 2013, as compared with Rs.3.92 crore a year earlier.

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