

Press Release

Group Pharmaceuticals Limited

December 27, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 16.10 Cr. (Enhanced from Rs.13.10 crore)
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB+** (read as ACUITE triple B plus) from '**ACUITE BBB**' (read as ACUITE triple B) and short term rating to '**ACUITE A2+** (read as ACUITE A two plus) from '**ACUITE A2** (read as ACUITE A two) on the Rs.13.10 crore bank facilities of Group Pharmaceuticals Limited (GPL). The outlook is 'Stable'.

Further, Acuité has assigned long-term rating of '**ACUITE BBB+** (read as ACUITE triple B plus) and short term rating to '**ACUITE A2+** (read as ACUITE A two plus)' to the Rs. 3.00 crore bank facilities of GPL. The outlook is 'Stable'.

The rating upgrade is on account of consistent revenue growth coupled with improvement in profit margins demonstrated by wide distribution network span 200,000 retailers, serviced by 16 C&F agents and 600 stockists across several states in India. The revenues of the company has increased to Rs.117.65 crore for FY2019 from Rs.96.16 crore in FY 2017, which is a 22 percent growth from previous year. This is mainly on account of long term relations of more than 13 years with reputed clients including Dr. Reddy's Laboratories Limited, Glaxo Smithkline Pharmaceuticals limited (GSK), Abbott Healthcare Limited and Glenmark Pharmaceuticals Limited. Acuité expects the revenues to grow in near to medium term on the back of repeated orders from its customers.

Group Pharmaceuticals Limited (GPL), incorporated in 1980 is engaged in the manufacturing of pharmaceutical products (oral and dental care). The company has two manufacturing units at Thane (Maharashtra) and Kolar (Karnataka). The installed capacity of the GPL is 26 lakh kgs per annum for tablets, toothpastes, ointments and 20 lakh liters per annum for oral and external liquids.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the GPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

The company has established track record, since 1980, in manufacturing of pharmaceutical products comprising tablets, toothpastes, ointments and oral liquids. The company is promoted by Mr. Sunil Attavar (Chairman & Managing Director) and Mrs. Ann Attavar, who collectively have over three decades of experience in the pharmaceutical industry. The extensive experience of promoters has enabled to the company to develop established relationships with its customers and suppliers. The promoter's extensive experience is also reflected through improvement in the operating income by 13 percent to Rs.117.65 crore during FY2019 while its operating margins remained stable in the range of 7.24-7.83 percent. Acuité believes that GPL will benefit from its established position in the pharmaceutical industry, experienced management and established relationships with customers and suppliers.

• Healthy financial risk profile

GPL's financial risk profile is healthy, marked by a healthy networth, low gearing and healthy debt protection metrics. Its networth is healthy at around Rs.32.61 crores as on March 31, 2019. The networth levels have seen significant improvement over the last three years through FY2019 on account of accretion to reserves during the same period.

GPL's healthy cash accruals to the tune of about Rs.6.09 crores have supported in minimising the reliance on external debt lead to healthy gearing and debt levels of 0.24 times and Rs. 7.73 crores as on March 31, 2019. GPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.6.69 to 7.14 crores which are comfortable to service its repayment obligations of the routine capex and incremental working capital requirements. As a result, the gearing however is expected to remain low as on March 31, 2021 on back of absence of healthy accretion to reserves.

The NCA/TD and interest coverage ratio for FY2019 were healthy at 0.79 percent and 10.22 times, respectively. Acuité believes that the financial risk profile is likely to remain healthy in near to medium term on account of comfortable net worth, coverage indicators, healthy net cash accruals and absence of any major debt funded capex.

Weaknesses

Highly competitive and regulated pharmaceutical industry

All the products and companies in the pharmaceutical industry are regulated by several policies and bodies in terms of quality control, safety and health standards, and several other certifications and control standards. Any changes in regulations by the regulatory bodies may hamper the business of entities prevailing in the industry. Further, the company faces intense competition from large players present in the industry.

Rating Sensitivity

GPL's ability to improve the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile are the key rating sensitivity.

Material Covenant

None

Liquidity Position : Strong

The company has strong liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.6.09 crore for FY2019, with nil debt repayment obligations for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.6.69 crore to Rs.7.93 crore during FY2020-22 against debt repayment obligations of Rs. 0.04 crore in the same period. The company's working capital operations are efficient, marked by GCA of 108 days for FY2019. The company has low working capital utilization of around 28 percent for the period under study of nine months ending on November, 2019. The company maintained cash and bank balances of Rs.0.66 crore as on 31 March, 2019. The current ratio stood healthy at 1.81 times as on 31 March, 2019. Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes that GPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of significant improvement in revenue and profitability while maintaining its financial risk profile. Conversely, the outlook maybe revised to 'Negative' in case of steep decline in revenue and profitability or deterioration in the financial risk profile or further elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	117.65	103.40
PAT	Rs. Cr.	3.96	3.01
PAT Margin	(%)	3.37	2.91
Total Debt/Tangible Net Worth	Times	0.24	0.26
PBDIT/Interest	Times	10.22	7.39

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-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Trading Sector - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
2-Nov-2018	Cash Credit	Long Term	11.50	ACUITE BBB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A2 (Reaffirmed)
	Proposed Bank Facility	Long Term	1.35	ACUITE BBB/ Stable (Reaffirmed)
25-Sep-2017	Cash Credit	Long Term	11.50	ACUITE BBB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A2 (Reaffirmed)
	Proposed Bank Facility	Long Term	1.35	ACUITE BBB/ Stable (Reaffirmed)
3-May-2016	Cash Credit	Long Term	11.50	ACUITE BBB/ Stable (Assigned)
	Term Loan	Long Term	1.26	ACUITE BBB/ Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	0.09	ACUITE BBB/ Stable (Assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A2 (Assigned)

***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	15.85 (Revised from 11.50)	ACUITE BBB+ / Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A2+ (Upgraded)

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About Acuité Ratings & Research:

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