

PAB Organics Private Limited

January 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1.99 (reduced from 3.13)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long-Term/ Short Term Bank Facilities	20.50	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	0.35	CARE A3 (A Three)	Reaffirmed
Total Facilities	22.84 (Rs. Twenty Two Crore Eighty Four Lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PAB Organics Private Limited (PAB) continue to derive comfort from vast experience of promoters in the pharmaceutical industry and reputed clientele along with its comfortable capital structure, moderate debt coverage indicators & adequate liquidity.

The ratings, however, continue to remain constrained on account of susceptibility of profit margins to volatile raw material prices and exchange rate fluctuation risk, and its presence in highly fragmented and regulated pharmaceutical industry. The ratings also factor dip in PAB's scale of operations and significant decline in profitability in FY20 due to change in regulatory framework.

Rating Sensitivities

Positive factors

- Growth in scale of operations to above Rs.150 crore along with improvement in operating margin above 12% on a sustained basis.

Negative Factors

- Decline in scale of operations to below Rs.75 crore along with significant dip in gross cash accruals (GCA) leading to tightly matched GCA vis-à-vis debt repayment obligations
- Increased reliance of external borrowings leading to deterioration in the company's capital structure marked by overall gearing above 1.50 times

Detailed description of the key rating drivers

Key Rating Strengths

Qualified and experienced promoters with established track record in the industry: Mr. Pankaj Maheshwary, Managing Director (Production) and his brother Mr. Alok Maheshwary, Director (Finance and Administration) together hold an experience of more than three decades in the manufacturing of bulk drug intermediates (BDIs). Together, they are suitably aided by professionals at various levels in managing the daily operations of the company.

Reputed clientele and moderate order book: PAB has an established clientele and has a demonstrated track record of supplying BDIs to reputed pharmaceutical companies in India. PAB has been dealing with these customers for more than a decade and accounts for around 50% of its TOI, which mitigates the customer concentration risk to a certain extent. As on December 24, 2020 PAB had unexecuted order book of around Rs.39.00 crore, which is expected to be executed till March 2021 thus showing moderate revenue visibility.

Comfortable capital structure and moderate debt coverage indicators: As on March 31, 2020, capital structure of PAB continued to remain comfortable and improved marginally marked by an overall gearing ratio of 0.60 times as on March 31, 2020 (P.Y. end 0.66 times) mainly on account of lower debt levels as on balance sheet date. However, considering decline in profitability, PAB's debt coverage indicators, albeit deteriorated, continued to remain moderate during FY20 with interest coverage and TD/GCA of 2.22x as on March 31, 2020 (P.Y. 5.86x) and 5.70 years (P.Y.2.04 years) respectively.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Key Rating Weaknesses

Decline in scale of operations and profitability: During FY20, PAB's TOI declined by 20% y-o-y to Rs.87.73 crore (Rs.109.70 crore in FY19) primarily due to decline in sales volume of its key product Carbamoylmethyl Methyl Hexanoic Acid (CMH). CMH is used in production of 'Pregabalin', which has been moved to controlled drug category by World Health Organization (WHO). Consequent to above, demand as well as sales realisation of CMH had declined which in turn impacted PAB's profitability during FY20. PAB's PBILDT and PAT margin reduced by 600 bps (to 6.19%) and 522 bps (to 0.47%) respectively during FY20.

Sales of CMH is gradually stabilizing at lower prices and the company has been able to clear its unsold stock. PAB aims to reduce its concentration on CMH and has increased the production of 5 Bromo Phthalide (used in production of medication for kidney problems) which has a better sales realisation. During 8MFY21, PAB has reported TOI worth Rs. 57.23 crore.

Susceptibility of profitability to volatile raw material prices and exchange rate fluctuation risk: Raw material cost constitutes around 75% of PAB's cost of sales in past three years. Furthermore, around 51% of its total raw material requirement during FY20 was procured from the international market. Although PAB has a natural hedge to an extent of its exports (~14% of its total sales in FY20) and a part of its exposure is hedged by entering into forward contract, its profitability remains susceptible to adverse volatility in raw material prices and exchange rate fluctuations.

Presence in a highly fragmented and regulated pharmaceutical industry: Indian Pharmaceutical Industry (IPI) is highly fragmented having presence of large number of organized as well as unorganized players. The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for business activities across the value chain.

Liquidity – Adequate:

PAB's liquidity position stood adequate marked by moderate working capital utilization of ~60% for trailing 12 month period ended November 2020 and current ratio of 1.50x. PAB had modest cash and bank balance of Rs.0.33 crore as on March 31, 2020. PAB generated cash accruals of Rs.2.83 crore during FY20 as against repayment obligation of around Rs.1.42 crore during FY21.

PAB's operating cycle elongated to 114 days in FY20 (83 days in FY19) as a result of increase in inventory levels to Rs.21.25 crore as on March 31, 2020 (FY19 end: Rs. 13.80 crore) as orders for CMH declined. However, inventory levels reduced as on November 30, 2020 to Rs.11.92 crore as the company has been able to clear its unsold stock with an uptick in prescription-based demand for 'Pregabalin'.

While PAB has not availed moratorium benefit for its bank facilities, it has opted for COVID-19 Emergency credit line (CECL) worth Rs.3.48 crore in October, 2020 to meet its working capital requirements and reduce reliance on high-cost cash credit facility.

Analytical approach: Standalone

Applicable Criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology – Pharmaceutical Sector](#)

[Financial ratios - Non- Financial Sector](#)

[Liquidity Analysis – Non-Financial Sector](#)

About the company

Vadodara (Gujarat) based PAB was established as a partnership firm in 1981 as PAB Chemicals for manufacturing Sodium Bisulphite and Sodium Metabisulphite. Later on during February 2000, it was changed to PAB Organics Private Limited for manufacturing of fine chemicals and pharmaceutical intermediates. Managed by Mr. Alok Maheshwary and Mr. Pankaj Maheshwary; PAB operates from its ISO 9001, 14001, OHSAS 18001, Schedule M and GMP certified facility located at GIDC, Nandesari (Gujarat). PAB has two associate firms namely Baroda Industrial Polymers which is engaged into manufacturing of polythene material and other related products and Baroda Industrial Distributors engaged into distribution of industrial chemicals.

Brief financials of PAB are tabulated below:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	109.70	87.73
PBILDT	13.43	5.43
PAT	6.24	0.41
Overall gearing (times)	0.66	0.60
Interest coverage (times)	5.86	2.22

A – Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	August 2023	1.99	CARE BBB-; Stable
Fund-based - LT/ ST CC/Packing Credit	-	-	-	20.50	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	0.25	CARE A3
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.10	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1.99	CARE BBB-; Stable	-	1)CARE BBB-; Stable (02-Jan-20)	1)CARE BBB-; Stable (04-Jan-19) 2)CARE BBB-; Stable (09-May-18)	1)CARE BBB-; Stable (20-Nov-17)
2.	Fund-based - LT/ ST CC/Packing Credit	LT/ST	20.50	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (02-Jan-20)	1)CARE BBB-; Stable / CARE A3 (04-Jan-19) 2)CARE BBB-; Stable / CARE A3 (09-May-18)	1)CARE BBB-; Stable / CARE A3 (20-Nov-17)
3.	Non-fund-based - ST-ILC/FLC	ST	-	-	-	-	1)Withdrawn (09-May-18)	1)CARE A3 (20-Nov-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	0.25	CARE A3	-	1)CARE A3 (02-Jan-20)	1)CARE A3 (04-Jan-19) 2)CARE A3 (09-May-18)	1)CARE A3 (20-Nov-17)
5.	Non-fund-based - ST-Credit Exposure Limit	ST	0.10	CARE A3	-	1)CARE A3 (02-Jan-20)	1)CARE A3 (04-Jan-19) 2)CARE A3 (09-May-18)	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the instrument	Complexity level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/Packing Credit	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Credit Exposure Limit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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