

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.

Contact us**Media Contact**

Mr. Mradul Mishra

Contact No.: +91-22-6837 4424

Email ID – mradul.mishra@careratings.com**Analyst Contact**

Mr. Chinmay Sheth

Contact No.: +91-79-4026 5693

Email ID – chinmay.sheth@careratings.com**Relationship Contact**

Mr. Deepak Prajapati

Contact No.: +91-79-4026 5656

Email ID – deepak.prajapati@careratings.com**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**