

PAB Organics Private Limited

January 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ²	Rating Action
Long Term Bank Facilities	3.13 (reduced from 4.40)	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	23.98 (Rupees Twenty Three Crore and Ninety Eight Lakhs Only)		

Details of instruments/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 along with presence of reputed clientele. The ratings also continue to factor in the growing although moderate scale of operations and profitability along with comfortable capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained on account of product concentration risk as major revenue is derived from single product, susceptibility of profit margins to foreign exchange rate and raw material price fluctuation risk and its presence in highly fragmented and regulated pharmaceutical industry.

Positive factors

- Increase in total operating income (TOI) to above Rs.150 crore with PBILDT margin of more than 14% on sustained basis
- Sustainable capital structure marked by overall gearing at below unity level

Negative factors

- Decline in scale of operations by more than 20% along with significant dip in gross cash accruals (GCA) leading to tightly matched GCA vis-à-vis debt repayment obligations
- Deterioration in gearing ratio of over 1.5 times along with a deterioration in overall liquidity profile

Detailed description of the key rating drivers

Key Rating Strengths

Qualified and experienced promoters with established track record in the industry

Mr Pankaj Maheshwary, Chairman and Managing Director of the company, holds an experience of more than three decades in manufacturing of APIs (Active Pharmaceutical Ingredients). Mr Alok Maheshwary has an experience of nearly three decades in the manufacturing and marketing of APIs. The management is supported by well-qualified and technical personnel.

Reputed clientele and moderate order book

PAB has been supplying pharmaceutical intermediates to major pharmaceutical players for more than three decades. PAB's customer base includes well known and reputed companies from pharmaceutical industry. Further, as on December 11, 2019 PAB had unexecuted order book of Rs.39.66 crore from these customers which is to be executed in next 4-5 months' time.

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Growing although moderate scale of operations and profitability

During FY19, PAB registered a marginal growth of 7.23% in its TOI to Rs.109.70 crore as against Rs.102.30 crore during FY18 supported by consistent demand from existing customers and addition of new customers during the year. Profit margins continued to remain comfortable during the year marked by PBILDT margin of 12.24% as compared to 12.08% during FY18. Improvement in PBILDT margin was mainly due to marginal decrease in raw material procurement cost during the year. However, PAT margin declined marginally by 37 bps and stood at 5.69% during FY19 as compared to 6.06% during FY18 on account of increase in depreciation and interest costs during the year. Further, gross cash accruals improved and stood at Rs.8.53 crore during FY19 as compared to Rs.7.91 crore during FY18.

Comfortable capital structure and debt coverage indicators

As on March 31, 2019, solvency position of PAB continued to remain comfortable and improved marginally marked by an overall gearing ratio of 0.66 times as against 0.82 times as on March 31, 2018. Improvement is mainly on account of increased net worth upon accretion of profits to reserves.

Debt coverage indicators continued to remain comfortable marked by interest coverage ratio of 5.86x during FY19 and total debt to GCA of 2.04x as on March 31, 2019.

Key Rating Weakness**Susceptibility of margins to volatile raw material prices and foreign exchange fluctuation risk**

The raw material remained the major cost driver for PAB contributing 65% of total costs in past three years. Hence, any substantial increase in raw material costs would affect the company's profitability in the near term.

PAB procures raw material majorly from international market and its imported raw material constituted 57% of total raw material consumed during FY19. PAB hedges its foreign exchange exposure partly by entering into forward contract while balance portion is kept open. Owing to this, its profitability remains exposed to foreign exchange rate fluctuation risk.

Presence into highly fragmented and regulated Industry

Indian Pharmaceutical Industry (IPI) is highly fragmented having presence of large number of unorganized players along with presence of organized players as well. Key factors that are expected to drive the growth of IPI in the medium term are increasing penetration of generic drugs in regulated markets on the back of significant patent expiries, outsourcing by global pharmaceutical companies to India and steady growth in the domestic market.

Liquidity analysis: Adequate

The liquidity position stood adequate in FY19 marked by moderate operating cycle of 83 days and average working capital utilization of 58% for trailing 12 month period ended October 2019. Cash flow from operating activities stood at Rs.2.89 in FY19 as against Rs.4.24 crore during FY18. Further, cash and bank balance as on March 31, 2019 stood low at Rs.0.02 crore as against Rs.1.33 crore as on March 31, 2018. However, the company had generated sufficient cash accruals of Rs.8.22 crore during FY19 as against repayment obligation of Rs.1.79 crore during FY20.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning outlook to credit ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology-Pharmaceutical Sector](#)

About the Company

Vadodara (Gujarat) based PAB Organics Private Limited (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. The company is 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 (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	102.30	109.70
PBILDT	12.36	13.43
PAT	6.20	6.24
Overall gearing (times)	0.82	0.66
Interest coverage (times)	10.43	5.86

A: Audited

During H1FY20 (Provisional), PAB has registered a TOI of Rs.48.70 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	3.13	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	3.13	CARE BBB-; Stable	-	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 (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 (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 (04-Jan-19) 2)CARE A3 (09-May-18)	-	-

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

Name- Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Name - Ms. Shreedha Shah

Contact no.- (079) 40265636

Email ID- shreedha.shah@careratings.com

Business Development Contact

Name: Mr. Vimlendu Mishra

Contact no. : (079) 40265640

Email ID: vimlendu.mishra@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**