

## Discovery Intermediates Private Limited

Instrument	Amount in Rs crore	Rating Action
Fund Based Limits	6.25	[ICRA]B (upgraded from [ICRA]B-)

ICRA has upgraded the long-term rating assigned to Rs. 6.25 crore<sup>1</sup> fund based limits of Discovery Intermediates Private Limited (DIPL)<sup>1</sup> to [ICRA]B (pronounced ICRA B) from [ICRA]B- (pronounced ICRA B minus).

The rating upgrade primarily factors in the increased scale of operations of the company with revenues increasing from Rs. 25.17 crore in FY2014 to Rs. 42.74 crore in FY2016 owing to higher job work sales made to Mylan Laboratories; and reduced working capital intensity owing to lower debtor and inventory levels for the last two years. Further, the rating also positively factors in the longstanding experience of the promoters in pharmaceutical Active Pharmaceutical Ingredient (API) manufacturing industry and the diverse product portfolio of the company which includes intermediates used in API manufacturing. ICRA also notes the company's strategic partnership with reputed pharmaceutical companies such as Dr. Reddy's Laboratories and Mylan Laboratories which ensures offtake. The rating is however constrained by high customer concentration risk with top-5 customers accounting for nearly 90% of the total revenues in the past 4 years; dip in operating margins for FY2016 owing to higher employee expenses; and modest scale of operations with revenues of Rs. 43 crore in FY2016 in the pharmaceutical industry. The rating is further constrained by highly fragmented and competitive nature of the industry which limits the pricing flexibility; and potential deterioration in leverage and coverage metrics owing to proposed debt funded capacity addition owing to cost or time overrun risks.

Going forward, the company's ability to further increase its scale of operations and profitability, diversify client base, timely completion of capex and manage its working capital requirements effectively will be the key credit rating sensitivities.

### Company Profile

Incorporated in 2004, Discovery Intermediates Private Limited (DIPL) is engaged in the manufacturing of pharmaceutical intermediates. The company presently manufactures various types of intermediates and supplies to bulk drug manufacturers in Hyderabad. The company is promoted by Mr. M.V. Sekhara Rao and his son Mr. Prashanth Manne. The company's manufacturing facility is based in Hyderabad (Andhra Pradesh) and the commercial production for the unit commenced in 2006. The facilities are designed and constructed to comply CGMP guidelines and to meet global standards.

### Recent Results

As per the audited financials for FY2015, the company reported profit after tax of Rs 0.92 crore on turnover of Rs 32.03 crore as against profit after tax of Rs 0.65 crore on turnover of Rs 25.17 crore during FY2014. As per provisional results for FY2016, the profit before tax was Rs. 1.58 crore on a turnover of Rs. 42.74 crore.

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<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications



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