

## Sagar Drugs and Pharmaceuticals Private Limited

Instrument	Amount	Rating Action
Cash Credit Limits	Rs. 6.00 crore	Revised from [ICRA]BB to [ICRA]BB-; Stable outlook

ICRA has revised the long-term rating to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BB (pronounced ICRA double B) for the Rs. 6.00 crore<sup>1</sup> cash credit facility of Sagar Drugs and Pharmaceuticals Private Limited (SDPPL)<sup>2</sup>. The outlook on the long-term rating is 'Stable'.

The rating revision takes into account the deterioration in the financial risk profile of the company marked by a decline in revenues and continued operational losses on account of sub-optimal utilisation of manufacturing capacities due to operating inefficiencies with respect to effluent treatment and volatility in prices of finished products (Vinyl Sulphone and its derivative). This has also led to continued deterioration of debt coverage indicators during FY2016. Additionally, the rating continues to be constrained by high working capital intensity and limited pricing flexibility of the company, owing to a competitive and fragmented industry. The ratings are further constrained by the high customer concentration risk, vulnerability of the company's profitability to the raw material price fluctuations and the dependence on the business cycles of end user industries like textile. ICRA has also taken note of financial support extended to the subsidiary companies (GPSar Healthcare Limited and Sar Organiser Private Limited) which have huge accumulated losses; thereby restricting overall financial flexibility of SDPPL.

The rating, however, draws comfort from the extensive experience of the promoters in the dye intermediate segment, the favourable location of the company in Gujarat which is the dye and dye intermediate manufacturing hub of India and comfortable capital structure. The rating also factors in the established presence of retail pharmacy brand "Planet Health," which at present operates a retail chain of 34 stores located across Ahmedabad, Gandhinagar and Vadodara through its subsidiaries. Further, the company plans to incur a capital expenditure of about Rs. 5 crore towards an effluent treatment plant and replacement of vessels and reactors to improve the overall operating efficiency and revive its operations. The said capex will be funded through internal accruals and unsecured loans from promoters / directors. Going forward, the ability of the company to grow its order book, increase its customer base, improve its accruals position and manage its working capital cycle efficiently would remain the key rating sensitivities.

### Company's Profile

Sagar Drugs and Pharmaceuticals Pvt. Ltd. (SDPPL) was set up by Mr. Rohit Patel in 1985. The company is involved in manufacturing dye intermediates (Vinyl Sulphone and its derivatives), fine chemicals and food preservatives. The manufacturing facility of the company is located in Ahmedabad, Gujarat with a capacity to manufacture ~2700 MTPA of VS and its derivatives and ~8400 MTPA of food preservatives. Further, the group has diversified into retail pharmacy chain under the brand name "Planet Health" in 2001 through its wholly-owned subsidiaries SAR Organisers Private Limited (SOPL) and GPSAR Healthcare Limited (GHL). The brand name and trademark of "Planet Health" are owned by SDPPL. The day-to-day operations of the stores, including procurement and selling of the products, are done under GPSAR Healthcare Limited, while the real estate holdings of retail stores are managed by SOPL.

### Recent Results

For the year ended March 31, 2015, the company reported an operating income of Rs 32.85 crore and net loss of Rs 1.14 crore as against an operating income of Rs 23.48 crore and net profit of Rs 0.32 crore for the year ended March 31, 2014. For the year ended March 31, 2016 (as per the provisional financials), SDPPL has reported an operating income of Rs. 19.60 crore and a net loss of Rs 3.24 crore.

At the consolidated level, SDPPL reported an operating income of Rs. 76.58 crore and net loss of Rs. 0.87 crore in FY2015 as against an operating income of Rs. 56.01 crore and net profit of Rs. 0.30 crore in FY2014.

**July 2016**

<sup>1</sup> 100 lakhs = 1 Cr = 10 million

<sup>2</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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