Envee Drugs Pvt. Ltd.

October 31, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	5.50	5.50	[ICRA]BB- (Stable); Reaffirmed
Non-fund Based Letter of Credit	8.50	8.50	[ICRA]A4; Reaffirmed
Total	**14.00**	**14.00**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) assigned to the Rs. 5.50-crore[1] cash credit limit of Envee Drugs Pvt. Ltd. (EDPL)[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 8.50-crore non-fund based limits of EDPL.

Rationale

The reaffirmation of ratings considers the company's moderate scale of operations and its financial profile being characterized by low profitability, which has witnessed a decline in the past two fiscals, and average coverage indicators. The assigned ratings further take into account the vulnerability of the company's profitability to volatility in raw material prices and currency fluctuations given high reliance on imports for meeting raw material requirements. ICRA also notes that the revenue profile of the company is characterized by sale of relatively mature molecules which are exposed to high competition. The ratings however favourably factor in the established track record of the company in manufacturing of APIs and its established relationships with customers resulting in repeat orders.

Outlook: Stable

ICRA believes EDPL will continue to benefit from the extensive experience of its promoters and the established position of the company in manufacturing of APIs. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to Negative if any further erosion in profitability, any substantial increase in instances of bad debts, or any major debt-funded capital expenditure/stretch in the working capital cycle weakens the liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters: The promoters have an extensive experience of over three decades and the company has an established track record in the manufacturing of APIs, particularly macrolides and steroids.

Established customer relationships: Over the period, the company has developed an established relationship with its customers, ensuring repeat business. In the past two fiscals it has diversified its product profile by venturing into manufacture and sale of few new API's, which is expected to result in improvement in margins, going forward.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Credit challenges

Moderate scale of operations amid intense competition in bulk drug industry: The company remains a modest-sized player in the bulk drug industry, with net revenues of Rs. 62.30 crore in FY2018 and Rs. 60.20 crore in FY2018. The domestic bulk drug industry is characterised by stiff competition because of presence of numerous organised and unorganised players. Moreover, the company's product profile consists of relatively mature molecules, which are exposed to high competition and provide limited margins.

Product and therapeutic segment concentration risk: The company manufactures APIs and mainly caters to the macrolide and steroid segment. Within the macrolide therapeutic segment, EDPL has a substantial presence in erythromycin based products which contributed ~50-75% of its total macrolides sales in the past few years. Erythromycin and its derivatives are relatively mature molecules and there are a number of companies catering to this segment making EDPL susceptible to competition in this segment. In the steroid segment, Clobetasol Propionate remains the major contributor of revenue. The competitive intensity for this segment also remains high, however it is higher value added as compared to macrolides. In the past two fiscals it has diversified its product profile by venturing into manufacture and sale of few new API's, which is expected to result in improvement in margins, going forward. Nonetheless, its limited product and segment diversification makes it susceptible to intense competition.

Average financial risk profile: The financial risk profile of the company is characterised by low profitability (OPBDITA/OI of 2.39% and PAT/OI of 1.46% in FY2018) and average debt protection metrics (Interest cover at 1.64 times, Total Debt/OPBDITA at 3.43 times as on March 31, 2018).

Profitability susceptible to volatility in raw material prices and foreign currency exchange rates: With limited control over the prices of its key inputs, the company's profitability remains exposed to volatility in raw material prices. In addition, the profitability of the company is also exposed to fluctuations in foreign currency exchange rates, to the extent unhedged.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Envee Drugs Pvt. Ltd. was established in the year 1998 as a partnership firm and subsequently converted to a private limited company in the year 2003. It has an established track record in its primary business of manufacture and trade of Active Pharmaceutical Ingredients (APIs), primarily macrolides and steroids. The company also commissioned manufacturing and trading of bulk chemicals, mainly soda ash and butol glycol ether in FY2012, however stopped selling them from FY2017, owing to shortage in its availability and the resultant price hike leading to subdued demand and limited margins. The company has received ISO 9001-2000 certification and its plant is also Good Manufacturing Practices (GMP) approved.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	62.45	60.28
PAT (Rs. crore)	0.53	0.88
OPBDIT/ OI (%)	2.82%	2.39%
Total Debt/ TNW (times)	1.61	0.84
Total Debt/ OPBDIT (times)	4.57	3.43
Interest Coverage (times)	1.42	1.64

Source: Envee Drugs Pvt. Ltd.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	Date & Rating in FY2018 April 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 November 2015
1	Cash Credit	Long Term	5.50	-	**[ICRA]BB- (Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]BB- (Stable); suspended**	**[ICRA]BB- (Stable)**
2	Letter of Credit	Short Term	8.50	**-**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4; suspended**	**[ICRA]A4**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	NA	5.50	[ICRA]BB- (Stable)
NA	Letter of Credit	-	NA	NA	8.50	[ICRA]A4

Source: Envee Drugs Pvt. Ltd.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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