



## Rating Rationale

**Sanyog Enterprises Ltd (Formerly known as Sanyog Enterprises Pvt Ltd)**

21 Sep 2018

**Brickwork Ratings upgrades the long term rating to BWR BBB+ (Stable Outlook) for the bank loan facilities aggregating Rs. 196 Crores of Sanyog Enterprises Ltd (SEL or ‘the Company’).**

### Particulars

Facility Rated	Amount (Rs. Crs)		Tenure	Rating <sup>1</sup>	
	Previous	Present*		Previous	Present
Fund Based Cash Credit	153.00	190.00	Long Term	BWR BBB (Outlook Stable)	BWR BBB+ (Outlook Stable) (Upgraded)
Non Fund Based Bank Guarantee (Long Term)	6.00	6.00	Long Term		
<b>Total</b>	<b>159.00</b>	<b>Rs. 196.00 Crores (INR One Hundred &amp; Ninety Six Crores Only.)</b>			

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

### Long Term rating upgraded.

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Company’s audited financial results upto FY18, projected financials for FY19 and FY20, publicly available information and clarifications provided by the Company.

The rating, continues to factor in the promoter’s healthy track record in the retail pharma industry, continuous increase in turnover levels by opening additional outlets/shops in J&K region, comfortable profitability margins with significant improvement in its coverage ratios and satisfactory feedback from its lenders. BWR also takes note of new agreements signed with couple of hospitals to open outlets/shops in their vicinity on pan India basis.

The rating is, however, constrained by working capital intensive nature of operations and operations being exposed to intense competition.

### Key Rating Drivers



## **Credit Strengths**

Established track record of operations with strong market position: The Company benefits from the promoters' healthy track record in retail pharma industry. It has strong presence in Delhi NCR region and continues to penetrate other regions of the country.

Continues increase in its scale of operations: SEL's turnover increased from Rs. 667.67 Cr to Rs. 776.32 Crs during FY18 owing to new retail outlets opened in Delhi NCR and in the J&K Region, with remaining outlets expected to be opened within the current financial year. The Company also has entered into agreements with various Hospitals for opening of outlets at pan India level, which is likely to further add up to its scale of operations in FY19.

Significant improvement in profitability margins: Despite regulatory concerns and trading nature of business, PAT improved significantly from Rs. 6.26 Cr to Rs. 13.38 Cr during FY18. Subsequently, PAT margins improved to 1.72% (P.Y. 0.94%) in FY18. Profitability margins improved mainly due to opening of the new outlets in J&K region.

Improvement in coverage ratios: Due to significant increase in profit margins and higher cash accruals at operating levels, ISCR improved from 1.49x to 1.93x during FY18. Coverage ratios are expected to improve further considering no plans for any additional secured debt borrowings coupled with increasing its scale by opening new shops at pan India level.

## **Credit Weaknesses**

Working capital intensive nature of operations: The Company's operation continues to remain working capital intensive, as reflected in cash conversion cycle of 110 days (P.Y. 104 days). Out of the total sales, majority is being contributed from IPD sales where they get collection from the hospital in 70-80 days' time period. However, the Company gets 25-30 days credit period from its suppliers. Ability of the Company to generate significant margins in order to compensate interest outgo of additional working capital requirements remains the key rating sensitivity.

Intense competition: The Indian pharma market is highly fragmented with presence of large and small unorganized pharmacies.

## **Analytical Approach**

BWR has considered the standalone business and financial risk profile of the Company, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

## **Rating Outlook: Stable**

BWR believes **Sanyog Enterprises Ltd's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company manages its working capital efficiently, significantly improves its coverage ratios along with reducing its total interest cost obligations and maintain its turnover and profitability growth over the medium term. The



rating outlook may be revised to ‘Negative’ if the turnover goes down and profit margins show lower than expected figures.

### About the Company

Sanyog Enterprises Ltd (SEL), was originally established in 1999 as a private limited company, which was reconstituted as public limited company in August 2018. SEL is a distributor for more than 200 multinational & national companies such as GSK, Astra Zeneca, Ranbaxy, Cipla etc. Currently, SEL operates company-owned retail pharmacy stores under the brand name “Sanyog Pharmacy” in various reputed government hospitals. SEL has also entered into lease agreements with various hospitals & dispensaries for operating drug stores.

### Company Financial Performance

Sanyog Enterprises Ltd has reported a total operating income of Rs. 776.32 Cr in FY18 as against Rs. 667.67 Crs in FY17. It has reported a net profit of Rs. 13.38 Crs during FY18 as against Rs. 6.26 Cr during FY17. As on 31<sup>st</sup> March 2018, it has reported a tangible net worth of Rs. 85.07 Cr as against Rs. 71.69 Cr as on 31<sup>st</sup> March 2017.

Key financial indicators are summarized in Annexure I below.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

### Rating History for the last three years (including withdrawn/suspended ratings)

Facility	Current Rating (Year 2018)			Rating History		
	Type	Amount (Rs. Crs)	Rating	27 June 2017	07 April 2016	20 July 2015
Fund Based Cash Credit	Long Term	190.00	BWR BBB+ (Stable) (Upgrade)	BWR BBB (Stable) (Reaffirmation)	BWR BBB (Stable) (Reaffirmation)	BWR BBB (Stable)
Non Fund Based Bank Guarantee (Long Term)	Long Term	6.00				

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

For any other criteria obtain hyperlinks from website

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### Annexure I – Key Financial Indicators of Sanyog Enterprises Ltd

Particulars	FY17 (A)	FY18 (A)
Total Operating Income (Rs. Crs)	667.67	776.32
EBITDA (Rs. Crs)	26.52	43.63
PAT (Rs. Crs)	6.26	13.38
Total Tangible Net worth (Rs. Crs)	71.69	85.07
Total Debt to Equity Ratio (times)	2.45	2.51
ISCR (times)	1.49	1.93

#### For print and digital media

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#### Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf). Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

#### About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.



BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

#### **DISCLAIMER**

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