November 18, 2024

Hy-Gro Chemicals Pharmtek Pvt. Ltd: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based	10.00	14.00	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable); assigned to enhanced amount
Short term non-fund based	6.00	8.75	[ICRA]A3+; upgraded from [ICRA]A3; assigned to enhanced amount
Short term fund-based	11.00	15.00	[ICRA]A3+; upgraded from [ICRA]A3; assigned to enhanced amount
Long term - Fund based - Term loan	-	6.00	[ICRA]BBB (Stable); upgraded; assigned to enhanced amount
Long term/Short term Unallocated limits	3.25	-	-
Total	**30.25**	**43.75**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings factors in a significant increase in Hy-Gro Chemicals Pharmtek Pvt. Ltd's (HCPPL) operating income in FY2024 and H1 FY2025, supported by healthy export demand and addition of new products. The operating income rose to Rs. 213.3 crore in FY2024 and to ~Rs. 120 crore in H1 FY2025 and Rs. 154.1 crore in FY2023. Further, the economies of scale resulted in healthy operating profits in FY2024 and H1 FY2025 that helped improve the liquidity and financial profile which is likely to sustain in the medium term. A healthy order book position as of June 2024 and the commercialisation of new products are likely to support the revenue growth, going forward.

The ratings continue to factor in the company's track record in the active pharmaceutical ingredient (APIs) and fine chemical business and its diversified customer base, which continues to expand. The company caters to a reputed customer base with presence in regulated and semi-regulated markets. The company's capital structure has remained comfortable with a gearing of 0.2 times as on March 31, 2024, on account of a strong tangible net worth.

The ratings are, however, constrained by the company's moderate scale of operations and the high overheads. The ratings are also constrained by the high net working capital intensity in the range of 40-50% for the past years ended FY2023 due to the high receivables and inventory maintained by the company. However, the working capital intensity moderated in FY2024 with a decrease in the receivable and inventory days. ICRA notes that the company's cash flows remain exposed to intense competition from established players in India and overseas. Further, its operations are vulnerable to regulatory risks and foreign currency fluctuations.

The Stable outlook on the rating reflects ICRA's expectation that HCPPL is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, which will help expand the capacity and product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established track record in bulk drug manufacturing industry – The promoters have more than four decades of experience in the bulk drug industry and fine chemicals. HCPPL started manufacturing chemicals and bulk drugs from 1995 and has two plants in Hyderabad and Visakhapatnam.

Improved profitability supports comfortable capital structure and healthy coverage metrics – The economies of scale resulted in healthy operating profits in FY2024 and H1 FY2025, improving the liquidity and financial profile, which is likely to sustain in the medium term. The company's capital structure remained comfortable and the coverage indicators improved in FY2024, reflected in a gearing of 0.2 times as on March 31, 2024, total debt/OPBDIT of 0.9 times and interest coverage of 9 times. However, the company's ability to manage its working capital-intensive operations and limit its incremental reliance on debt remains a key monitorable.

Reputed customer base across geographies – The company caters to a reputed customer base. It has customers in regulated markets, such as the US, Japan and certain European nations, along with semi-regulated markets, such as Indonesia, Pakistan and Turkey. The company derived ~79% of its revenues from exports in FY2024.

Credit challenges

Moderate scale of operations– HCPPL's operating income improved to Rs. 213.3 crore in FY2024 from Rs. 154.1 crore in FY2023, though the scale of operations continues to be moderate. ICRA also notes that the company derives most of its revenues from the top three products, which account for 75-80% of its revenue, resulting in product concentration risks. Also, the share of acute therapies remains significant at present. However, HCPPL has added new products in the past two financial years and is looking to further diversify its product base to provide better stability to the cash flows, going forward.

High working capital intensity – The company's working capital intensity was high with NWC/OI in the range of 40% for the past five financial years ended FY2023 owing to the high debtor and inventory levels. The high net working capital intensity exerted pressure on HCPPL's cash flows, increasing the company's short-term loans. Though the capital intensity moderated in FY2024 with a decrease in the receivable and inventory days, the company's ability to manage its working capital-intensive operations on a sustained basis and limit its incremental reliance on debt remains a key monitorable.

Exposure to regulatory risk and foreign currency fluctuations – The pharmaceutical industry is intensely competitive due to the presence of various established bulk drug manufacturers, resulting in limited pricing power and profitability. Also, the company's operations remain exposed to regulatory risks due to the scrutiny by regulatory agencies. Maintaining manufacturing standards has become critical, given the heightened scrutiny levels and stringent product quality standards. The company's operations also remain exposed to foreign currency fluctuations with exports driving majority of the revenue. However, imports account for a certain portion of the total purchases, providing a natural hedge to an extent.

Liquidity position: Adequate

The liquidity position is expected to remain adequate, going forward, amid expectations of stable cash generation and moderate debt repayments. The average utilisation of the fund-based limits in the last 15 months ended September 2024 is ~45% against the sanctioned limit. It has a repayment obligation of Rs. 1.6 crore in FY2025 and Rs. 3.4 crore in FY2026, which can be comfortably serviced from its estimated cash flow from operations. The company has moderate capex plans in FY2025 and FY2026, which are expected to be funded from internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade HCPPL's ratings if the company is able to demonstrate an improvement in its scale of operations and working capital intensity and sustain its healthy margins, resulting in an improvement in the debt coverage metrics and liquidity.

Negative factors –Pressure on HCPPL's rating could arise if there is a reduction in revenues or profitability margins on a sustained basis, or a deterioration in the working capital cycle or any large debt-funded capital expenditure, impacting on the company's debt coverage and liquidity on a sustained basis. Specific credit metrics that could lead to a downgrade of HCPPL's rating include Total debt to OPBDITA higher than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the standalone financials of HPPCL

About the company

HCPPL was incorporated as a trading company. In 1995, it set up its own manufacturing unit at Bollarum (Hyderabad) for APIs, advanced intermediates and fine chemicals. Further, in 2013, the company set up another manufacturing unit for fine chemicals, APIs and intermediates in JN Pharma City, Visakhapatnam. The Bollarum plant is WHO-GMP certified and has received the Certificate of Suitability (CEP) accreditation for two products from the European Directorate for Quality of Medicines. The Bollarum facility is approved by the US Food and Drug Administration (FDA)[1] and Korean MFDS. HCPPL has its own R&D unit and exports to over 20 countries, including the US, Hungary, Indonesia, Turkey and Pakistan.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	154.1	213.3
PAT	1.9	24.0
OPBDIT/OI	6.7%	16.0%
PAT/OI	1.2%	11.3%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	4.1	0.9
Interest coverage (times)	2.5	9.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

[1] *Classified under 'voluntary action indicated' by USFDA*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Nov 18, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based	Long term	14.00	**[ICRA]BBB (Stable)**	11-Aug-23	[ICRA]BBB- (Stable)	30-Dec-22	[ICRA]BBB- (Negative)	30-Sep-21	[ICRA]BBB (Stable)
			-	-	-	-	-	15-Feb-22	[ICRA]BBB (Stable)
Non-fund based	Short term	8.75	**[ICRA]A3+**	11-Aug-23	[ICRA]A3	30-Dec-22	[ICRA]A3	30-Sep-21	[ICRA]A3+
			-	-	-	-	-	15-Feb-22	[ICRA]A3+
Fund-based	Short term	15.00	**[ICRA]A3+**	11-Aug-23	[ICRA]A3	30-Dec-22	[ICRA]A3	30-Sep-21	[ICRA]A3+
			-	-	-	-	-	15-Feb-22	[ICRA]A3+
Fund-based - Term loan	Long term	6.00	**[ICRA]BBB (Stable)**	-	-	-	-	-	-
Unallocated limits	Long term/ Short term	-	-	11-Aug-23	[ICRA]BBB- (Stable)/ [ICRA]A3	30-Dec-22	[ICRA]BBB- (Negative)/ [ICRA]A3	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based	Simple
Non-fund based	Very Simple
Short-term fund-based	Very Simple
Term loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term fund-based**	NA	NA	NA	14.00	[ICRA]BBB(Stable)
NA	**Short-term non-fund based**	NA	NA	NA	8.75	[ICRA]A3+
NA	**Short-term fund based**	NA	NA	NA	15.00	[ICRA]A3+
NA	**Long-term fund-based term loan**	NA	NA	NA	6.00	[ICRA]BBB(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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