January 27, 2023

Doctor Pack India Private Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limit – Term Loan	14.24	14.24	[ICRA]BB+ (Positive) reaffirmed; outlook revised to Positive from Stable
Short-term, Fund-based Limit – Working Capital	10.00	10.00	[ICRA]A4+; reaffirmed
Short-term, Non-fund Based Limit	2.00	2.00	[ICRA]A4+; reaffirmed
Unallocated Amount	3.76	3.76	[ICRA]BB+ (Positive) /[ICRA]A4+ reaffirmed; outlook revised to Positive from Stable
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on Doctor Pack India Private Limited's (Doctor Pack) rating reflects ICRA's expectation that the company will register healthy revenue growth and steady accrual generation over the near to medium term. This is expected to be aided by steady offtake from key customers, healthy order book position and planned increase in manufacturing capacity. Coupled with healthy capitalisation and coverage metrics as well as adequate liquidity position, this is expected to continue to support the company's credit profile. The ratings also continue to derive comfort from the company's established operational track record and extensive experience of its promoters in the pharmaceutical packaging industry and state-of-the-art manufacturing facility. This has enabled Doctor Pack to develop a diversified product portfolio and a wide client base of leading Indian pharmaceutical companies.

However, the ratings are constrained by the company's moderate scale of operations resulting in limited economies of scale and vulnerability of its operating margins to volatility in prices of key raw materials and foreign exchange (forex) rates. Despite some improvement in FY2022, operating margins are likely to witness some moderation in FY2023 due to continued volatility in raw material prices and the company's inability to fully pass on the same to its customers due to high competitive intensity in the industry. Doctor Pack also extends product approval support to its customers, which supports its growth prospects. However, the company remains exposed to regulatory risks given that it has to obtain product approvals such as 'CE' marking, Canadian and US DMF before commencing commercial manufacturing of any new products.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of promoters in the pharmaceutical packaging business – Doctor Pack has an established track record of more than a decade in supplying pharmaceutical packaging to a reputed clientele across the pharmaceutical sector. It has a diversified product base that caters to ophthalmic, nasal, diabetes and inhalation drug delivery systems. It also benefits from the strong vintage of its promoter, having more than 25 years of experience in the industry, which helps it maintain a reputed client base and develop new products.

State-of-the-art manufacturing and established R&D to support growth prospects; clientele includes leading pharma companies – The company operates through its own, state-of-art manufacturing facility at Bommasandra, Bangalore, with advanced blow moulding machines and automated assembly line in a current goof manufacturing processes (CGMP) compliant validated clean room. Doctor Pack has an in-house design and development team and mould-making set up to expedite production. The company also provides intellectual property rights (IPR) protection to its clients for its products (by filing product patents and documentation support for DMF filing and CE marking). The better quality of its products and services have helped the company in creating a reputed customer base of leading players in the pharmaceutical industry, such as Cipla Limited, Micro Labs Limited and Lupin Limited.

Healthy coverage and capitalisation indicators supported by growing scale of operations – Doctor Pack's capitalisation and coverage indicators have remained healthy with Total Debt/OPBIDTA of 1.7x and TOL/TNW of 2.1x for FY2022, supported by growth in revenues and cash accruals. Although the net worth of the company has remained modest, with gradual build up of its moderate scale of operations. Going forward, coverage indicators are likely to remain healthy despite addition of debt (for funding capex) supported by improvement in revenues and cash accruals, however, healthy ramp-up of the company's operations with sustainability of the operating margins will remain a key monitorable.

Credit challenges

Moderate, albeit increasing, scale of operations – Doctor Pack's revenue remained range-bound at Rs. 35–40 crore between FY2018 and FY2021 due to delays in order execution while the company was setting up its own facility in Bomasandra, Bengaluru, and the pending approvals for its new pharmaceutical products post the commissioning of the facility. While there has been an improvement in scales of operations, the revenues continue to remain moderate at Rs. 60.5 crore in FY2022 and ~Rs. 85.0 crore in 9M FY2023. However, the company is investing in incremental capacities, which coupled with steady demand outlook is expected to drive the improvement in the company's scale of operations in the medium term.

Earnings susceptible to raw material price variations and forex fluctuations – Key raw materials used in medical product and drug packaging include polyoxymethylene, polycarbonate, polyethylene (low density and high density), etc. The prices of the raw materials have remained volatile over the past few years, which has resulted in volatility in the company's margins. In FY2022, Doctor Pack was able to register higher operating margins of 26.5% due to improving economies of scale, contribution from a new product category and price revisions, despite high volatility in raw material prices. However, some moderation in operating margins is likely in FY2023 due to continued volatility in raw material prices. Additionally, since ~60% of the raw material purchases are imported, the company's earnings are susceptible to forex fluctuations.

Exposed to high competitive intensity and regulatory risks – The company faces stiff competition from in-house packaging departments of pharmaceutical companies. It also witnesses competitions from larger suppliers from Taiwan and China, in addition to large domestic players, which restricts the pricing flexibility to a certain extent. However, it has been able to maintain a reputed customer base over the years, which includes several large pharmaceutical companies. Further, Doctor Pack provides IPR protection to its clients for its products, thereby exposing it to regulatory risks. Any delay in product approvals might constrain the operating income of the company.

Liquidity position: Adequate

Doctor Pack's liquidity position is **adequate**, supported by steady internal accrual generation, free cash balance and buffer in working capital facilities. Average utilisation of the working capital facility was moderate at ~55% of the total limits sanctioned for CY2022, with unutilised limits of Rs. 11.4 crore as on December 31, 2022. Doctor Pack has a planned capex of ~Rs. 8.0 crore in FY2023 and ~Rs. 25-30 crore in FY2024, which is expected to be partially funded by debt and the rest through internal accruals. The company's accrual generation is expected to be more than sufficient to meet its debt servicing obligations over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if Doctor Pack demonstrates healthy revenue growth and accrual generation while maintaining its debt coverage metrics and liquidity profile.

Negative factors – Pressure on ratings could arise with reduction in revenues and/or margins and weakening of coverage or return indicators owing to sizeable debt-funded capital expenditure with DSCR less than 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Doctor Pack India Private Limited was incorporated on 14 June 2010 by Mr. G Dinakaran, Mr. Umapathi Raju and Mr. Jatin Pandya. Doctor Pack is a packaging and device partner to leading global healthcare, pharmaceutical, diagnostics companies, hospitals, retail pharmacies and contract packagers. It specialises in the design, development and manufacturing of primary packaging, drug delivery systems, medical devices and customised plastics components including ophthalmic (eyes), parenteral (non-oral), nasal, inhalation, oral and diabetes drug delivery systems. Some of the company's products include injection vials, implant devices, nasal spray pumps and squeeze packs, inhalation devices like dry powder inhaler (DPI) and pressurised metered dose inhaler (PMDI), tablet containers, oral dosing syringes, pen dispensers, insulin pens, lancing devices and auto injectors. The current installed capacity of the facility is ~12.0 million dropper bottles (including all kinds of products manufactured by the company).

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022
Operating income	41.2	60.5
PAT	2.8	7.0
OPBDIT/OI	23.2%	26.5%
PAT/OI	6.7%	11.6%
Total outside liabilities/Tangible net worth (times)	2.5	2.1
Total debt/OPBDIT (times)	3.3	1.7
Interest coverage (times)	3.0	7.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 27, 2023	Oct 14, 2021	-	-
1	**Term Loans**	Long Term	14.24	7.89	**[ICRA]BB+ (Positive)**	[ICRA]BB+ (Stable)	-	-
2	**Fund based – Working Capital**	Short Term	10.00	-	**[ICRA]A4+**	[ICRA]A4+	-	-
3	**Non-fund based**	Short Term	2.00	-	**[ICRA]A4+**	[ICRA]A4+	-	-
4	**Unallocated**	Long Term and Short Term	3.76	-	**[ICRA]BB+ (Positive) / [ICRA]A4+**	[ICRA]BB+ (Stable) / [ICRA]A4+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short term – Fund based – Working capital	Simple
Short term – Non-Fund based	Very Simple
Long-term/Short-term Unallocated	Not Applicable

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	Term Loan	FY2021	8.5%	FY2028	14.24	[ICRA]BB+ (Positive)
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]A4+
NA	Letter of Credit	NA	NA	NA	1.50	[ICRA]A4+
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A4+
NA	Unallocated	NA	NA	NA	3.76	[ICRA]BB+ (Positive)/[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis: NA

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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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