

August 11, 2023

Hy-Gro Chemicals Pharmtek Pvt. Ltd: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based	10.00	10.00	[ICRA]BBB-; reaffirmed; outlook revised to Stable from Negative
Short term non-fund based	6.00	6.00	[ICRA]A3; reaffirmed
Short term fund-based	11.00	11.00	[ICRA]A3; reaffirmed
Long term/Short term Unallocated limits	3.25	3.25	[ICRA]BBB-/ [ICRA]A3; reaffirmed; outlook revised to Stable from Negative
Total	30.25	30.25	

*Instrument details are provided in Annexure-I

Rationale

The change in the outlook to Stable from Negative reflects the recovery in Hy-Gro Chemicals Pharmtek Pvt. Ltd's (HCPPL) operating profit and revenues in FY2023 and Q1 FY2024 which is likely to improve further in the near term, supporting an improvement in the liquidity and financial profile. The operating income increased to Rs. 154.1 crore in FY2023 and Rs. 62.3 crore in Q1 FY2024 from Rs. 108.7 crore in FY2022, resulting in better absorption of fixed costs, thereby supporting an improvement in operating profit. A healthy order book position as of June 2023 and the commercialisation of new products are likely to support the revenue growth, going forward. ICRA notes the enhancement in the sanctioned working capital limits in April 2023 to support the company's working capital requirements.

The ratings continue to factor in the company's track record in the active pharmaceutical ingredient (APIs) business and its diversified customer base, which continues to expand. The company caters to a reputed customer base with a presence in regulated and semi-regulated markets. The company's capital structure has remained comfortable with a gearing of 0.3 times as on March 31, 2023 on account of strong tangible net worth.

The ratings are, however, constrained by the company's moderate scale of operations coupled with the high overheads. The ratings are also constrained by the high net working capital intensity in the range of 40% due to the high receivables and inventory maintained by the company. ICRA notes that the company's cash flows remain exposed to intense competition from established players in India and overseas. Further, HCPPL's operations remain exposed to regulatory risks and foreign currency fluctuations.

The Stable outlook reflects ICRA's expectation that HCPPL will maintain its stable revenue growth, aided by product launches and acquisition of new customers across geographies.

Key rating drivers and their description

Credit strengths

Track record in bulk drug manufacturing industry – The promoters have more than four decades of experience in the fine chemicals and bulk drug industry. HCPPL started manufacturing chemicals and bulk drugs from 1995 and has two plants in Hyderabad and Visakhapatnam with a total installed capacity of 266 MTPA.

Comfortable capital structure –The company’s capital structure has remained comfortable with gearing of 0.3 times as on March 31, 2023, on account of the strong tangible net worth. The improvement in operating profits in FY2023 further supported the net worth. 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, among others. The company derived ~69% of its revenues from exports in FY2023.

Credit challenges

Moderate scale of operations– HCPPL’s operating income improved to Rs. 154.1 crore in FY2023 and Rs. 62.3 crore in Q1 FY2024 compared to Rs. 108.7 crore in FY2022. However, the scale of operations continues to be moderate. ICRA also notes that the company derives most of its revenues from three products, which account for ~ 80% of its revenue, resulting in product concentration risks. Also, the share of acute therapies remains significant at present. HCPPL is looking to diversify its product base to provide better stability to the cash flows, going forward.

High working capital intensity – The company’s working capital intensity remains high with NWC/OI at 40% in FY2023 owing to the high debtor and inventory levels. The high net working capital intensity has been exerting pressure on HCPPL’s cash flows, increasing the company’s short-term loans. The company’s ability to manage its working capital-intensive operations 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, evident from the imposition of warning letters/import alerts by the USFDA even for reputed Indian and global generic companies. The company’s operations also remain exposed to foreign currency fluctuations with imports driving some portion of the total purchases; however, a natural hedge provides comfort to an extent.

Liquidity position: Adequate

The liquidity position is expected to remain adequate, going forward, amid expectations of improved cash generation and moderate debt repayments. The average utilisation of the fund-based limits in the last 12 months ended June 2023 is 87% against the sanctioned limit. Further, the enhancement in working capital limits was sanctioned in April 2023 to support the working capital requirements. It has a repayment obligation of Rs. 0.8 crore in FY2024 and Rs. 1.9 crore in FY2025, which can be comfortably serviced from its estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade HCPPL’s rating if the company is able to demonstrate an improvement in its scale of operations and working capital intensity and sustain its margins, resulting in an improvement in the debt coverage metrics and liquidity. Specific credit metrics that could lead to an upgrade include interest coverage of more than 3.5 times on a sustained basis.

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 further deterioration in the working capital cycle, impacting the company’s debt coverage and liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of HCPPL

About the company

HCPPL was incorporated as a trading company. In 1995, it set up its own manufacturing unit at Bollaram (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 Bollaram 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 Bollaram 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

	FY2022	FY2023*
Operating income	108.7	154.1
PAT	-9.0	1.5
OPBDIT/OI	-1.4%	7.0%
PAT/OI	-8.3%	1.0%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	-28.7	3.9
Interest coverage (times)	-0.6	2.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Classified under 'voluntary action indicated' by USFDA

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Aug 11, 2023	Dec 30, 2022	Feb 15, 2022	Sep 30, 2021	Jul 28, 2020
1 Fund based	Long term	10.0	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Non-fund based	Short term	6.0	-	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3 Fund based	Short term	11.0	-	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4 Unallocated limits	Long term/Short term	3.25	-	[ICRA]BBB-(Stable)/[ICRA]A3	[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	Simple
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	Cash credit	NA	NA	NA	10.0	[ICRA]BBB-(Stable)
NA	Non-fund based facilities	NA	NA	NA	6.0	[ICRA]A3
NA	Fund-based facilities	NA	NA	NA	11.0	[ICRA]A3
NA	Unallocated limits	NA	NA	NA	3.25	[ICRA]BBB-(Stable)/ [ICRA]A3

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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