February 09, 2024

Doctor Pack India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limit – Term Loans	14.24	9.08	[ICRA]BB+ (Positive); reaffirmed
Short-term – Fund-based Limit – Working Capital	10.00	15.00	[ICRA]A4+; reaffirmed
Short-term – Non-fund Based Limit	2.00	5.00	[ICRA]A4+; reaffirmed
Long-term/ Short-term – Unallocated Limits	3.76	0.92	[ICRA]BB+ (Positive) /[ICRA]A4+; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings of Doctor Pack India Private Limited (Doctor Pack) and the continuation of the positive outlook on the long-term rating factors in ICRA's expectation that despite some moderation in sales in the near term, the company is expected to report healthy growth in revenue and accruals in FY2025, supported by new product development, increasing orders from existing customers and expected completion of its ongoing expansion plans in India and the US. The ratings also derive comfort from Doctor Pack's established track record of more than a decade in the pharmaceutical packaging industry and the extensive experience of its promoters of more than two decades in the industry. Doctor Pack has state-of-the art manufacturing capabilities with established R&D capabilities supporting introduction of new products, which helps it in maintaining a strong product portfolio and a wide client base of leading Indian pharmaceutical companies.

While Doctor Pack's capitalisation and coverage indicators remained comfortable in FY2023, debt levels are expected to increase over the near term to fund its expansion plans, which is expected to result in some moderation of its coverage metrics. Over FY2024 and FY2025, Doctor Pack is expected to incur a capex of Rs. 30-35 crore towards setting up a new manufacturing entity in the US and around Rs. 20-22 crore towards product development and capacity enhancement in the existing unit in India. Timely commissioning and adequate ramp up of sales from these enhanced capacities will remain a key monitorable. Additionally, the ratings also remain constrained by Doctor Pack's moderate scale of operations and volatility in its profitability arising out of susceptibility to volatility in prices of key raw materials and forex fluctuations. The company also remains exposed to regulatory risks given that it requires product approvals, such as CE[1] marking, Canadian and US DMF[2], before commencing commercial manufacturing of any new products. Moreover, the manufacturing plant coming up in the US will also have to obtain US FDA[3] approval, which exposes it to further regulatory risks.

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 been manufacturing pharmaceutical packaging products for more than a decade and its promoters have a strong vintage of more than 25 years in the industry. The company has been able to maintain a good product base that caters

[1] *CE: European Commission*

[2] *DMF: Drug Master Files*

[3] *US FDA: United Stated Food and Drugs Authority*

to ophthalmic, nasal, diabetes and inhalation drug delivery systems. Its long presence in the industry has helped it in developing and maintaining relationships with a reputed client base that includes several large Indian pharmaceutical manufacturers.

Established relationships with key customers, who include leading pharma companies – With a state-of-the-art manufacturing unit and strong R&D capabilities supporting new product development, Doctor Pack has been able to maintain a strong product portfolio catering to leading pharmaceutical manufacturers. Furthermoer, it also provides IPR[4] protection to its clients for its products (by filing product patents and documentation support for DMF filing and CE marking). This has further helped the company in maintaining strong relationships with these leading pharma companies, such as, Cipla Limited, Micro Labs Limited, Lupin Limited and Akums Drugs.

Comfortable capitalisation and coverage indicators – Doctor Pack's capitalisation and coverage indicators improved during FY2023 supported by growth in scale and operating margin, leading to a significant improvement in cash accruals. It had a Total Debt/OPBIDTA of 0.5x, TOL/TNW of 0.9x and interest cover of 20.3 times for FY2023. While its debt metrics might witness some moderation over the near to medium term on account of the ongoing capex, which is expected to be partially funded by debt, its overall financial profile is expected to continue to remain comfortable. Further improvement in debt metrics shall also be contingent on scale-up of operations in the US entity and increase in manufacturing in the Indian business where it is planning a significant capacity expansion to ~30 million units from ~20 million units at the current level.

Credit challenges

Moderate scale of operations; further growth partly contingent on successful offtake of business from Doctor Pack USA Inc. – While Doctor Pack's revenues have growth significantly over FY2023 to Rs. 106.2 crore from Rs. 60.5 crore in FY2022, its overall scale continues to remain moderate. Moreover, its revenues have witnessed some moderation in FY2024 with total revenue of Rs. 64.6 crore in 9M FY2024 on account of loss of orders from a key client. That said, with the planned capacity expansion in India, set up of a manufacturing entity in the US, efforts towards new product development and a steady demand outlook, its revenues are expected to witness steady growth over 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 also exposes the company to volatility in operating margins. Although it has been able to improve its margins over FY2023 to 40.1% from 26.5% in FY2022 on account economies of scale and lower raw material prices. Additionally, since 60-70% of the raw material purchases are imported, the company's earnings are also 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, large suppliers from Taiwan and China and some large domestic players, which restricts its 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.

Liquidity position: Adequate

Doctor Pack's liquidity position is **adequate**, supported by steady internal accrual generation, unencumbered cash balance (Rs. 2.4 crore as on December 31, 2023) and buffer in the form of undrawn working capital facilities of ~ Rs. 7.0 crore as on November 30, 2023. On a consolidated basis, Doctor Pack has a planned capex of ~Rs 25-30 crore per year over FY2024 and FY2025, including capex towards setting up a new manufacturing unit in the US (under its subsidiary), which is expected to be partially funded by debt and the balance through internal accruals. The company's accrual generation is expected to be sufficient to meet its debt servicing obligations of ~Rs. 5-6 crore p.a. over FY2024 and FY2025.

[4] *IPR: intellectual property rights*

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if Doctor Pack demonstrates steady 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 delays in stabilisation of ongoing capex 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	For its analysis, ICRA has estimated the consolidated financials of the company. As on December 31, 2023, Doctor Pack had two subsidiaries, which are enlisted in Annex II.

About the company

Doctor Pack was incorporated on June 14, 2010, by Mr. G Dinakaran, Mr. Umapathi Raju and Mr. Jatin Pandya. The company 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 manufacturing capacity of the company's facility is ~20.0 million dropper bottles. Doctor Pack has also set up a subsidiary, Doctor Pack USA Inc., in the US with a 90% shareholding. The entity is expected to start manufacturing packaging products in the US and cater to companies in the region and other key markets.

Key financial indicators (audited)

Doctor Pack – standalone	FY2022	FY2023
Operating income	60.5	106.2
PAT	7.0	27.6
OPBDIT/OI	26.5%	40.1%
PAT/OI	11.6%	26.0%
Total outside liabilities/Tangible net worth (times)	2.1	0.9
Total debt/OPBDIT (times)	1.7	0.5
Interest coverage (times)	7.6	20.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 09, 2024	Jan 27, 2023	Oct 14, 2021	-
1	**Term Loans**	Long Term	9.08	9.08	**[ICRA]BB+ (Positive)**	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	-
2	**Fund based – Working Capital**	Short Term	15.00	--	**[ICRA]A4+**	[ICRA]A4+	[ICRA]A4+	-
3	**Non-fund based**	Short Term	5.00	--	**[ICRA]A4+**	[ICRA]A4+	[ICRA]A4+	-
4	**Unallocated**	Long Term and Short Term	0.92	--	**[ICRA]BB+ (Positive)/ [ICRA]A4+**	[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	8.5-9%	FY2028	9.08	[ICRA]BB+ (Positive)
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]A4+
NA	Letter of Credit	NA	NA	NA	5.00	[ICRA]A4+
NA	Unallocated	NA	NA	NA	0.92	[ICRA]BB+(Positive)/[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Doctor Pack's Ownership	Consolidation Approach
Doctor Pack USA INC	90%	Full Consolidation
Insight Technologies Private Limited	100%	Full Consolidation

Source: Company

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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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