

July 12, 2024

Naari Pharma Pvt. Ltd.: Rating upgraded and Removed from Rating Watch with Developing Implications; Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	34.60	34.60	[ICRA]BB+(Stable); Rating upgraded from [ICRA]BB- and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long-term – Fund-based – Working capital limits	40.00	40.00	[ICRA]BB+(Stable); Rating upgraded from [ICRA]BB- and removed from Rating Watch with Developing Implications; Stable outlook assigned
Short-term – Fund-based/ Non-fund based – Working capital limits (sublimit)	(30.00)	(30.00)	[ICRA]A4+; Rating Upgraded from [ICRA]A4 and removed from Rating Watch with Developing Implications
Total	74.60	74.60	

*Instrument details are provided in Annexure-I

Rationale

The ratings of Naari Pharma Pvt. Ltd. (Naari) were based on implicit support expectations from Tenshi Life Sciences Private Limited (TLPL). However, TLPL was amalgamated with another entity named Tenshi Pharmaceuticals Private Limited (TPPL) recently. Subsequently, ICRA has revised the rating approach to standalone.

The ratings upgrade considers a gradual but consistent improvement in the company's scale, backed by new product launches amid geographical diversification into the regulated markets. The ratings are further supported by the extensive experience of its management and its existing relationships with global players. ICRA also notes the overall improvement in the financial risk profile, reflected in an increase in profitability mainly due to hive-off of its active pharmaceutical ingredients (API) business. This coupled with the operating leverage led to an improvement in the profit margins. Naari has started generating healthy accruals, resulting in limited external funding requirement over the last 2-3 years, resulting in improved capital structure and coverage indicators.

However, the ratings are constrained by its small scale of operations albeit gradual improvement. The ratings are further constrained by product concentration as the top three products contribute the major portion to Naari's revenues. The ratings also consider the high working capital intensity, particularly because of high receivables period in the exports market. Further, Naari is exposed to various regulatory and market risks, in line with its broader industry.

The Stable outlook on the long-term rating reflects ICRA's expectation that the established relationships with its customers and experienced management, along with new product launches would support the company's operations and, thereby, its financial profile.

Key rating drivers and their description

Credit strengths

Strong promoter background and established track record of the company – The company's operations are guided by an experienced management team with over three decades of experience in the pharmaceutical business across global markets, which has ensured existing relationships with global pharmaceutical players in the industry.

Regular product launches and geographical expansion – ICRA notes that the company has received US FDA approval for its Rudrapur plant and has also started launching products for the US market. This apart, several products are already being launched in other regulated markets such as Canada, France and South Africa, with some additional sales taking place in the UK and Europe. The company has also recently completed some key studies and launches are expected shortly.

Sustained improvement in financial profile – There has been a consistent improvement in Naari's financial risk profile. Aided by closure of the loss-making API business and the operating leverage, the company's profitability has become healthy with an OPM of ~33%, as per provisional figures of FY2024, improving from 29.2% in FY2023. This apart, there has not been any incremental debt availed in the past few years, resulting in improving coverage metrics and capital structure. Overall, the financial risk profile has improved considerably over the last three fiscals. The operating leverage is likely to continue with the expected expansion in the scale of the company, and the financial risk profile may improve further, going forward.

Credit challenges

Limited scale of operations – Despite consistent improvement in the company's revenue, the overall scale of operations of NPPL remained modest at Rs. 119 crore in FY2024, which rose by 20% from Rs. 98.4 crore recorded in FY2023. Going forward, while the company's scale is expected to improve, but the pace and quantum of the same would be monitored.

High product concentration – The concentration towards the top three products for NNPL remains high at ~77% and therefore remains a concern. However, NPPL is making conscious effort to reduce the concentration going forward by conducting several studies followed by launches.

High working capital intensity – The working capital intensity of the company remained significantly high at ~67% as on March 31, 2024 owing to high receivables. The receivables remain high due to relatively longer payment cycle, which may remain along the existing lines.

Various market and regulatory risks associated with products, in line with other industry players – In line with the industry, the company faces regulatory risks in the regulated markets. However, an experienced promoter group with more than three decades of experience in the industry supports operational efficiencies. Additionally, approval of the US Food and Drug Administration (USFDA) for the formulations facility in Rudrapur has been received, which augurs well for the company, going forward.

Liquidity position: Adequate

Naari's liquidity is adequate with positive cash flow from operations, further supported by free cash and liquid investment of Rs. 6.6 crore as on March 31, 2024. The liquidity, however, remains constrained by limited cushion in the working capital limits, characterised by working capital limits utilisation of ~90% in the last 12 months ending in March 2024. Overall, ICRA expects Naari to be able to meet its near-term commitments through internal sources. Future projected capex is expected to be met by internal accruals and term debt. The annual repayments of Rs. 5.72 crore and Rs. 8.15 crore in FY2025 and FY2026, respectively are expected to be met by internal accruals of the company.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of a significant increase in the company’s scale while maintaining the profitability, resulting in an improvement of liquidity and debt coverage metrics on a sustained basis.

Negative factors – Pressure on the ratings could arise from deterioration in revenues and profitability, resulting in worsening of coverage indicators and liquidity. Specific credit metric that may result in ratings downgrade includes TD/OPBDITA of more than 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Standalone
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Naari was incorporated as Indo Phyto Chemicals Private Limited on February 23, 1978, and is currently engaged in the development, manufacture and supply of finished pharmaceutical products in female healthcare domain. Naari’s formulation manufacturing facility is located at Rudrapur, India, and is involved in the development and manufacturing of hormones with capabilities across tablets. The R&D facility is recognised by Department of Scientific and Industrial Research (DSIR).

Key financial indicators (audited)

NPPL Standalone	FY2022	FY2023	FY2024*
Operating income	87.1	98.4	118.5
PAT	-0.8	-48.2	25.4
OPBDIT/OI	23.7%	29.2%	32.7%
PAT/OI	-0.9%	-48.9%	21.5%
Total outside liabilities/Tangible net worth (times)	1.2	1.9	1.2
Total debt/OPBDIT (times)	4.5	3.4	2.5
Interest coverage (times)	3.6	4.2	5.8

Source: Company, ICRA Research; * Provisional numbers; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023			Date & Rating in FY2022
			July 12, 2024	Oct 31, 2023	Mar 14, 2023	Dec 29, 2022	Jul 28, 2022	Apr 22, 2021	
1	Term loan	Long term	34.60*	[ICRA]BB+(Stable)	[ICRA]BB-; Rating watch with developing implications	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB+(CE) (Stable)	[ICRA]BBB-(CE) (Negative)
2	Fund based – Working capital limits	Long term	40.00	[ICRA]BB+(Stable)	[ICRA]BB-; Rating watch with developing implications	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB+(CE) (Stable)	[ICRA]BBB-(CE) (Negative)
3	Fund based/ non-fund based*	Short term	(30.00)	[ICRA]A4+	[ICRA]A4; Rating watch with developing implications	[ICRA]A4	[ICRA]A4	[ICRA]A4+(CE)	[ICRA]A3(CE)

* amount outstanding against the same as on March 31, 2024 is Rs. 27.7 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Working capital limits	Simple
Fund based/ Non-fund based working capital	Very 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 No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2020	9.55% - 11.5%	FY2027	34.60	[ICRA]BB+(Stable)
NA	Fund based – Working capital limits	-	9.55%	--	40.00	[ICRA]BB+(Stable)
NA	Fund based/ non-fund based	-	9.55%	--	(30.00)	[ICRA]A4+

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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