June 28, 2024

Sakar Healthcare Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term –Fund-based – Cash Credit	20.50	39.00	[ICRA]BBB (Stable); reaffirmed
Long-term –Fund-based – Term Loans	97.26	62.76	[ICRA]BBB (Stable); reaffirmed
Long-term/Short-term – Unallocated Limits	0.24	16.24	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	**118.00**	**118.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to take into account the stable credit profile of Sakar Healthcare Limited (SHL), driven by healthy margins and comfortable capital structure, supported by series of equity infusions over the past few fiscals. The rating continues to take comfort from the proven track record of SHL of nearly two decades in the pharmaceutical formulations industry and its relatively diversified product profile and geographical presence. Moreover, prudent working capital management and buffer in working capital limits have also supported the liquidity profile.

The ratings, however, remain constrained by the moderate scale of operations amid intense competition in the generic formulations industry and vulnerability of profitability to fluctuations in raw material as well as forex changes. ICRA notes that the company has recently completed a large debt-funded capex towards the oncology segment (active pharmaceutical ingredients or APIs, formulations and injectables). The scaling up of the oncology unit, however, has remained slow, given pending registrations from key export destinations and is likely to happen only over the near to medium term. SHL's ability to successfully scale-up the oncology unit and generate commensurate returns from the capex remains critical from the credit perspective, given its moderate scale of operations at present. The debt protection metrics is expected to improve in the near to medium term, since no further debt-funded capex is on the cards, and since a large share of the equity infused in FY2024 has been used for prepaying long-term borrowings. The rating also remains constrained by SHL's exposure to regulatory restrictions in terms of product launches/ facility approvals/ socio-political risks in export destinations.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SHL will continue to benefit from the extensive experience of its key promoter in the pharmaceutical formulations industry, and from its diversified product and customer base.

Key rating drivers and their description

Credit strengths

Established track record of nearly two decades in the pharmaceutical formulations industry – The company has an established operation of nearly two decades in manufacturing pharmaceutical formulations. SHL manufactures generic formulations in 24 therapeutic categories, such as antibiotics, antihistamine, antifungal, cough preparation, and vitamins, among others. Further, the promoters also have an extensive experience in the industry, with Mr. Sanjay S. Shah, SHL's Chairman and Managing Director, having an extensive experience of three decades in the pharmaceutical, mineral water and plastic industries.

Diversified product portfolio and geographic presence – The company's product profile is diversified, comprising liquid injectables, tablets/ capsules, oral liquid syrups, dry powder injections and syrups. SHL's product portfolio includes approximately 300 product registrations for various therapeutic segments, such as antibiotics, anti-cold drugs, anti-malarial, and multi-vitamins, among others. Moreover, it has a diversified regional presence in the domestic market and exports primarily to semi-regulated markets of various African and Southeast Asian countries, including the Philippines. The company is increasing its focus on export markets, owing to the intense competition in the domestic generic formulations industry. Export sales have increased to ~Rs. 95 crore in FY2024 from ~Rs. 69 crore in FY2021. Further, the company has received European Union Good Manufacturing Practice (EU-GMP) certification for its existing liquid and lyophilised injectables units in accordance with the European Medicines Agency (EMA) standards and started exports to European countries in FY2021. Also, the company has started manufacturing oncology drugs, including formulations, APIs and injectables. Hence, its oncology segment is expected to further strengthen its product portfolio after successfully scaling up its business.

Healthy financial risk profile characterised by satisfactory return indicators, comfortable capital structure and debt coverage indicators – The company's capital structure improved in FY2024, with gearing of 0.3 times compared to 0.7 times in FY2023, which had improved infusion of funds to the extent of Rs. 77.4 crore in FY2024. The total debt decreased to Rs. 62.8 crore as on March 31, 2024 from Rs. 101.1 crore as on March 31, 2023, on account of prepayments on term loans from the series of equity infusions made in FY2024. The net worth of the company improved to Rs. 262.3 crore as on March 31, 2024 (PY: Rs. 173.3 crore) on the back of equity infusions made at premium. The company has raised total equity of Rs. 172.9 crore over FY2017-FY2024 through an IPO (Initial public offering) and preferential allotment to promoter/ non-promoter groups, mainly for funding its capex requirements. Given its healthy margins, coupled with decline in debt levels, SHL's debt protection metrics remained comfortable with TD/OPBIDTA and interest coverage at 5.1 times and 2.1 times, respectively, in FY2024, over 5.7 times and 3.5 times, respectively, in FY2023. The coverage indicators are expected to remain healthy in the near to medium term, since no debt-funded capex is on the cards and because its margins are healthy.

Credit challenges

Ability to successfully scale up oncology unit remains critical for overall growth – SHL undertook a debt-funded capital expenditure for setting up a new plant to manufacture oncology drugs. The formulation unit achieved commercial operations in October 2021 and the API unit commenced operations from July 2022, while the injectable unit commenced operations from April 2023 (delayed from December 2022). currently, the scaling up of the oncology unit has been slow, and the company recorded a sale of only ~Rs. 20 crore in FY2024. Hence SHL's ability to scale-up its operations from the oncology unit and generate commensurate returns from the debt-funded capex remains critical from a credit perspective, given its modest scale of operations at present. The company is also in process of seeking approvals for its oncology products in key export markets to expand its geographic presence; hence, the ability to timely receive the same to expand its customer profile remains critical for improvement in scale.

Moderate scale of operations – The company's revenue grew at a modest CAGR of ~13% over FY2020-FY2024 as it remains a mid-sized player in the intensely competitive generic formulations industry, with a revenue base of Rs. 153.4 crore as of FY2024. The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, with some players also enjoying a pan-India presence. The intense competition also restricts the company's revenue growth and pricing flexibility; however, its presence in export markets mitigates these constraints to some extent.

Profitability remains susceptible to fluctuations in raw material prices and risk associated with forex fluctuations – The company's major raw materials include APIs, such as Paracetamol, Artemether and Diclofenac, which are procured from domestic suppliers. SHL's profitability, hence, remains susceptible to such raw material price fluctuations and its ability to fully pass on such costs remain critical to protect margins. The operating profit margin remained at similar levels of 25.0% in FY2024. Further, SHL is exposed to foreign exchange rate fluctuations as the receivables are in foreign currency, while most of its expenses are in INR. The company does not have any formal hedging policy in place; however, as most of its exports are against advance payment/ sight LC (letter of credit), the foreign currency fluctuation risk is mitigated to a large extent.

Inherent regulatory risk associated with pharmaceutical industry – The company's operations remain exposed to regulatory restrictions in terms of product/ facility approvals/ socio-political environment of export destinations. With increasing focus on exports, ICRA notes that timely product and facility approval/ renewal in various semi-regulated markets, along with a stable socio-political environment, remains critical for its revenue growth.

Environmental and Social Risks

Environmental considerations: The company could face tightening of environmental regulations with regard to breach of waste and pollution norms, which can lead to an increase in operating costs. The company regularly monitors the protection of the environment and is conscious of the importance of environmentally clean and safe operations. It ensures compliance with environmental regulations and preservation of natural resources.

Social considerations: The company undertakes employees development initiatives to improve the morale and team spirit of its employees. The company focuses on human resources/ industrial relations development throughout the year. It is also trying to create adequate support systems at its head office to provide requisite knowledge and data to its sales team. These activities are expected to lead a motivated sales force for the company.

Liquidity position: Adequate

SHL's liquidity position remains adequate, as evident from the adequate cash accruals against the scheduled term loan repayments. The liquidity is further supported by an undrawn line of credit of ~Rs. 17 crore from the State Bank of India (SBI) as on March 31, 2024. The average utilisation of SBI's working capital limit remained ~41% during the last 12 months ended May 2024. Further, the company has prepaid its term loans to the extent of ~Rs. 38 crore from the equity infusions made in FY2024. The debt repayments are expected to range at Rs. 11-14 crore p.a. over the next three fiscals, which is expected to be sufficiently covered through the company's annual cash accruals.

Rating sensitivities

Positive factors – ICRA could upgrade SHL's ratings if there is any significant improvement in its operating income on the back of scale-up of its new plant, while maintaining healthy profitability and debt coverage indicators.

Negative factors – Pressure on SHL's rating could arise if there is any decline in operating income or material decline in operating margin, which in turn could impact the coverage indicators or liquidity profile adversely. Specific credit metrics, which can lead to a negative rating trigger, will be DSCR below 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated profile of SHL along with its wholly owned subsidiary, Sakar Oncology Private Limited.

About the company

Incorporated in 2004, Sakar Healthcare Limited manufactures pharmaceutical formulations in the form of liquid injectables, tablets/ capsules, oral liquid syrups, dry powder injections and syrups. The company manufactures generic formulations in 24 therapeutic categories, such as antibiotics, cough preparations, vitamins and mineral supplements, among others. Also, the company entered the oncology drugs segment with units for oncology formulations, APIs and injectables in October 2021, July 2022 and April 2023, respectively. The company is listed on the National Stock Exchange (NSE), India. SHL is involved in contract manufacturing for leading brands in the domestic market as well as direct sales on principal-to-principal basis in the domestic and export markets.

SHL's manufacturing facility is at Changodar, near Ahmedabad, Gujarat. The unit is ISO 9001:2008 and WHO-GMP certified. The company has also received EU-GMP certification in accordance with EMA standards, as well as INVIMA-Colombia and Health Canada approvals. In addition, SHL has certifications from the national drug authorities of the countries it exports to, such as the Philippines, Uganda, Ivory Coast, Kenya, Zimbabwe, Cambodia and Peru, among others. The company currently holds over 300 marketing authorisations (registrations) in these countries. Sakar Oncology Private Limited (SOPL) was incorporated in June 2020 as a wholly-owned subsidiary of SHL. It was promoted to transfer the oncology operations under it; however, the same has not been completed yet and remains non-operational till date.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	134.2	153.4
PAT	12.8	11.7
OPBDIT/OI	25.3%	25.0%
PAT/OI	9.5%	7.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.5
Total debt/OPBDIT (times)	3.5	2.1
Interest coverage (times)	5.7	5.1

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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	-	Mar 10, 2023	Jan 31, 2022
1	**Cash Credit**	Long term	39.00	--	**[ICRA]BBB (Stable)**	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	**Term Loan**	Long term	62.76	62.76	**[ICRA]BBB (Stable)**	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	**Unallocated**	Long term/ Short term	16.24	--	**[ICRA]BBB (Stable)/ [ICRA]A3+**	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: company;

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loans	Simple
Long 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	**Cash Credit**	NA	NA	NA	39.00	[ICRA]BBB (Stable)
NA	**Term Loans**	FY2021	NA	FY2030	62.76	[ICRA]BBB (Stable)
NA	**Unallocated**	NA	NA	NA	16.24	[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

Company Name	Ownership	Consolidation Approach
Sakar Oncology Private Limited	100.00%	Full Consolidation

Source: Company

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About ICRA Limited:

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