

August 24, 2017

Nutra Specialities Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term loan facilities	19.89	[ICRA]BB+(Stable) (Reaffirmed)
Long-term fund based facilities	16.00	[ICRA]BB+(Stable) (Reaffirmed)
Short-term fund based facilities	8.20	[ICRA]A4+ (Reaffirmed)
Short-term non fund based facilities	23.50	[ICRA]A4+ (Reaffirmed)
Total	67.59	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating outstanding on the Rs. 19.89 crore¹ term loan facilities and Rs. 16.00 crore long-term fund based facilities of Nutra Specialities Private Limited (“NSPL”/ “The Company”)² at [ICRA]BB+ (pronounced ICRA double B plus). The outlook on the long term rating is stable. ICRA has also reaffirmed the short term rating outstanding on the Rs. 8.20 crore fund based facilities and Rs. 23.50 crore non-fund based facilities of the Company at [ICRA]A4+ (pronounced ICRA A four plus).

Rationale

The reaffirmation of the ratings continues to take into consideration the long standing experience of promoters in the API segments in pharmaceutical industry. Further, the ratings factor in the significant NSPL’s revenue growth and improvement in operating margins in FY2017, in line with ICRA’s expectations. The improvement in top-line in FY2017 was driven by higher off-take of certain APIs like Olmesartan Medoxomil and Leviteracetam. The ratings also positively consider the process improvements undertaken and increased focus on regulated market that is expected to result in higher operating margin, going forward. ICRA also notes that the company’s plan for contract manufacturing is expected to support revenue growth in future.

However, the ratings remain constrained by the small scale of operation with high working capital intensity owing to stretched collection period and large inventory holding leading to high gearing and moderate coverage and debt protection metrics. The company is operating in industry characterized by high regulatory and legal risk where any regulatory/legal action can have significant impact on top-line and profitability. However, the company has been undertaking steps to increase penetration in the highly regulated markets and is making efforts in upgrading the quality standards and operating efficiency of its manufacturing facility for stricter compliance with the regulatory norms. The company has undertaken a capex of Rs.18.00 crore in Q1 FY2018 for the quality control facility which is likely to keep the capitalization and debt protection indicators stretched in the near term.

Going forward, improvement in capital structure by way of planned capital infusion of Rs. 15 crore by way of compulsorily convertible debentures remains a key rating sensitivity. The ability of the company to increase scale of operations while sustaining its margins, and compressing its working capital cycle, would also remain crucial to improving its credit profile.

¹ 100 Lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA’s website (www.icra.in) or other ICRA rating publications

Key rating drivers

Credit Strengths

- **Significant experience of the promoters in pharmaceutical industry, especially in bulk drug manufacturing** - Nutra Specialties Private Limited is a Chennai based pharmaceutical company incorporated in 2006 and promoted by Mr. S. Abhaya Kumar and family members. Mr Abhay Kumar, has rejoined as director in Nutra Sepcialities Private Limited in May 2017 and is expected to drive the growth going forward. Mr Abhay Kumar also had set up Shasun Chemicals & Drugs, in 1976, which was later merged with Strides Arcolab Limited to form Strides Shasun Limited. He is also a co-founder of Lifecell India Ltd and held many prestigious positions in pharmaceutical industry bodies and won a number of accolades in the industry.
- **Increase in top-line to be supported by increased off-take in APIs and increased capacity on account of external contracting**
Increase in off-take is expected in APIs like Levitiracetam, Lacosamide, Tetracaine in line with recent past. The company also enjoys monopoly in India in Tetracaine and also expects major revenue from products – Pregabalin and Paa HCL. The company also plans to outsource manufacturing some products to external facilities so as to focus on APIs to serve in regulated markets. In the long-term the company is expected to benefit from resulting improvement in capacity.
- **Expected improvement in margin on account of focus towards regulatory market** - Various regulatory approvals from WHO, EU, Korea has enabled the company to tap the regulated market that generally fetch higher realization for the APIs. The company is also actively looking in to foraying into regulated market like Japan and USA from FY2018 and hence the realization is expected to improve significantly going forward.
- **Diversified customer base both in export and import segment** - The company serves to diversified clientele in both in the domestic and export segment and revenue from exports contributed to 55% of total operating income in FY2017. The company has been serving varied reputed domestic customers groups/brands such as Sun Pharma, Acme Formulations Private Limited, Alembic Pharmaceutical Limited, Torrent Pharma in the domestic segment and Eva Pharma , Hilton group in international segment.
- **Financial support from promoters who have periodically infused capital into the Company** – Promoters/Directors have been supporting the company financially by way of unsecured loans during the time of necessity and are planning to infuse Rs 15.00 crore of capital by way of issuing compulsorily convertible debenture. Going forward, regular repayments of term loan and expected capital infusion is expected to support improve the gearing.

Credit Weakness

- **Small scale of operations resulting in limited economies of scale; Industry structure characterized by high competition and fragmentation** - The Company's current scale of operations remains small with an operating income of Rs. 114 crore during FY2017 from Rs 98 crore in FY2016 and has installed capacity to manufacture ~15 tonnes of API per month. The company's strategy is to identify products which are not produced in bulk by any major domestic pharmaceutical companies and then develop the process and launch that product in the market. However, given the high competition in generic API segment, the company remains exposed to margin erosion over the product life cycle.

- **Financial profile characterized by high gearing and moderate debt protection metrics** - The company's gearing have been at high level due to working capital intensive nature of operations and debt funded capital expansion undertaken in the recent past. The company's debt profile remains skewed towards working capital borrowing and unsecured loan from banks and financial institutions. Interest coverage ratio is stable at moderate level of 1.9X in FY2017, despite higher interest cost, on account of improvement in operating profits.
- **High working capital intensity due to stretched collection period and high inventory days has resulted in high gearing** - The Company's operations are characterized by high working capital intensity with NWC/OI at 40.0% in FY2017, mainly driven by high inventory days and stretched receivable days. The company usually extends credit period of 60-90 days for export market customers and 45 days for the domestic market customers. The stretched working capital cycle is also evident from high utilization of working capital borrowings.
- **Regulatory and Legal Risk associated with industry** - The company is operating in industry that has high regulatory and legal risk. There have been instances where such regulatory actions have resulted in manufacturing disruptions with a significant impact on revenues and profitability. The company, to mitigate risks related to production/ profitability loss in case of adverse regulatory action, has invested in upgrading their systems, documentations and manufacturing processes at considerable expense in recent past. On account of legal disputes, the company has planned to withdraw from certain APIs, however, the resultant revenue loss is expected to be offset by increased off-take of other products.

Key financial indicators of Nutra Specialities Private Limited

	FY2016	FY2017
	Audited	Provisional
Operating Income (Rs. crore)	100.2	114.6
PAT (Rs. crore)	2.1	2.6
OPBDIT/ OI (%)	14.3%	15.6%
RoCE (%)	12.9%	13.7%
Total Debt/ TNW (times)	2.4	2.4
Total Debt/ OPBDIT (times)	4.5	4.1
Interest coverage (times)	1.9	1.9
NWC/ OI (%)	40.1%	39.9%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable Criteria

[Corporate Credit Rating –A Note on Methodology](#)
[Pharmaceutical Industry](#)

About the Company:

Nutra Specialities Private Limited is a Chennai based pharmaceutical company incorporated in 2006 and promoted by Mr. S. Abhaya Kumar and family members. The company was initially setup to manufacture nutraceutical products, but the market for its products saw significant churn in 2007-08 when the Japanese

manufacturers flooded the market with cheaper products. This forced the company to change its product mix from Nutraceuticals to Active Pharmaceutical Ingredients (APIs). Currently the company has more than 15 products in its portfolio and two major products in the pipeline. The company primarily caters to the domestic and semi regulated exports markets. NSPL's manufacturing plant is located in Chandrapadiya Village near Nellore in Andhra Pradesh and has an in-house R&D for process development and product testing. The manufacturing facility is WHO-GMP compliant, ISO 9000:2008 certified and approved by the Council of Europe and KFDA (Korea Food & Drug Administration).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	Month-year & Rating FY2018	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015	
				August 2017	July 2016	July 2015	May 2014	
1	Term loan facilities	Long Term	19.89	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	
2	Long-term fund based facilities	Long Term	16.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	
3	Short-term fund based facilities	Short Term	8.20	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	
4	Short-term non fund based facilities	Short Term	23.50	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in.

Annexure-1
Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan - III - Canara bank	FY2012	-	FY2018	0.61	[ICRA]BB+ (Stable)
Term Loan - IV - Canara bank	FY2014	-	FY2019	1.00	[ICRA]BB+ (Stable)
Term Loan - V - Canara bank	FY2017	-	FY2025	7.96	[ICRA]BB+ (Stable)
Term Loan - I - Axis bank	FY2017	-	FY2020	6.68	[ICRA]BB+ (Stable)
Term Loan - II - Axis bank	FY2017	-	FY2020	0.40	[ICRA]BB+ (Stable)
Term Loan - III - Axis bank	FY2017	-	FY2024	*3.24	[ICRA]BB+ (Stable)
Canara bank - OCC	-	-	-	7.00	[ICRA]BB+ (Stable)
Axis bank - OCC	-	-	-	9.00	[ICRA]BB+ (Stable)
Canara Bank - PC/FDB/FBE	-	-	-	8.20	[ICRA]A4+
Canara Bank - ILC/FLC (DA/DP)	-	-	-	11.00	[ICRA]A4+
Canara Bank - Bank Guarantee	-	-	-	1.00	[ICRA]A4+
Axis Bank LC	-	-	-	11.50	[ICRA]A4+
				76.35	

* Represents amount rated



Name and Contact Details of the Rating Analyst(s):

Ravichandran. K

+91 44 4596 4301

ravichandran@icraindia.com

R Srinivasan

+91 44 4596 4315

srinivasan.r@icraindia.com

Rathina Pradeep

+91 44 4297 4307

rathina.r@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500