ICRA

February 05, 2020

# Sakar Healthcare Limited: [ICRA]BBB (Stable)/A3+ assigned

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| Cash Credit | 8.00 | [ICRA]BBB (Stable); Assigned |
| Term Loan | 1.50 | [ICRA]BBB (Stable); Assigned |
| Unallocated Limits | 0.50 | [ICRA]BBB (Stable)/A3+; Assigned |
| **Total** | **10.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings take into account the successful track record of Sakar Healthcare Limited (SHL) of over 15 years in the pharmaceutical formulations industry. The ratings also derive support from SHL's healthy financial risk profile characterised by satisfactory return indicators, comfortable capital structure and strong debt-coverage indicators. Moreover, prudent working capital management and equity raised over the past three fiscals have resulted in adequate liquidity position. Furthermore, the ratings derive comfort from the company's diversified product profile and geographical presence, along with the diversification into oncology drugs manufacturing, which is expected to improve scale and profitability, going forward.

The ratings are, however, constrained by SHL's modest scale of operations amid intense competition in the generic formulations industry. The ratings are also constrained by the risks associated with the stabilisation and successful scale-up of operations for the ongoing large debt-funded expansion project to manufacture oncology drugs. Furthermore, the company's operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals/socio-political environment 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.

## Key rating drivers and their description mang

## Credit strengths

**Extensive experience of promoters and established customer relationships** - The promoters have extensive experience and the company has an established track record in the pharmaceutical formulations industry, spanning more than 15 years. Over the period, the company has developed a strong relationship with its customers, ensuring repeat business.

**Diversified product portfolio and geographical presence** - The company's product profile is diversified comprising liquid injectables, tablets/capsules, oral liquid syrups, dry powder injections and syrups, and lyophilised injectables. The product portfolio remains diversified with approximately 300 product registrations, catering to various therapeutic segments such as antibiotics, anti-cold drugs, anti-malarial, multi-vitamins adrenergic, amino acids etc. Also, it has diversified geographical presence with sales to various geographies in the domestic market and export sales primarily to semi-regulated markets of various African countries and Philippines. The company is increasing its focus on export markets owing to intense competition in the domestic generic formulations industry. Export sales increased to ~Rs. 36.00 crore in FY2019 from ~Rs. 19.00 crore in FY2017.

Further, the company is also setting up a plant (near the existing facility) for manufacturing oncology drugs for which the capex is ongoing. The commercial operations at the plant are expected to commence from FY2021 (December 2020) onwards. This will further strengthen the company's product portfolio and lead to improvement in scale and profitability going forward.

**Healthy financial risk profile -** The company's low dependence on external borrowings in the past and improvement in net-worth base over the years has resulted in a comfortable capital structure, with gearing of 0.16 times and net-worth base of Rs. 71.70 crore as on March 31, 2019. The company raised an equity of Rs. 40.17 crore over FY2017-FY2019 through the IPO and preferential allotment to promoter/non-promoter group, mainly for funding its capex requirements. Also, the debt coverage indicators are healthy with interest coverage of 9.45 times, TD/OPBDITA of 0.67 times, a DSCR of 2.90 times and NCA/Debt of 112% in FY2019. Further, its RoCE stood satisfactory at 14.99% in FY2019.

## Credit challenges

**Modest scale of operations amid intense competition in generic formulations industry** – The company's revenue grew at a healthy CAGR of ~14% over FY2015-FY2019; however, it remains a moderate-sized player in the intensely competitive generic formulations industry. The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, with some of these players also having a pan-India presence. The intense competition also restricts the company's revenue growth and pricing flexibility; however, its presence in the export market mitigates these constraints to some extent.

**Risks associated with ongoing expansion project -** SHL's ongoing debt-funded capital expenditure—for setting up a new plant to manufacture oncology drugs, exposes the company to risks associated with timely project implementation and subsequent ramp-up in sales, post commercialisation of operations. The proposed availment of bank term loans of Rs. 40.00 crore for the same may lead to some moderation of the credit metrics in the interim period, till commensurate returns from the same start flowing—nevertheless, the term loan repayments will commence from FY2022 onwards and will be ballooning in nature, providing some comfort to the company. Notwithstanding this, the company's capital structure and coverage indicators are expected to remain at comfortable levels.

**Operations exposed to regulatory risks -** The company's operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals/socio-political environment in export destinations. With increasing focus on exports, ICRA notes that timely product and facility approval/renewal, in various semi-regulated markets, along with stable socio-political environment, remains critical for the growth of exports going forward.

## Liquidity position: Adequate

SHL's liquidity position remains **adequate**, as is evident from the healthy cash accruals against scheduled term loan repayments. The liquidity is further supported by an undrawn line of credit (Rs. 2.86 crore as on March 31, 2019) and low average working capital limit utilisation (~46% over the last 18 months from April 2018 to September 2019). The overall working capital cycle of the company remained moderate as reflected by the NWC/OI of 18% in FY2019.

## Rating sensitivities

**Positive Triggers**

- Successful commissioning and scale-up of the new plant without any cost and time overruns while maintaining healthy profitability and stable working capital cycle
- Strengthening of the net-worth base

**Negative Triggers**

- Any significant delay in the commissioning of the new plant, lower-than-expected ramp up of scale or operating profitability
- Stretch in working capital cycle adversely affecting liquidity
- Any further large debt-funded capex that deteriorates the capital structure and coverage indicators

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology<br>Rating Methodology for Pharmaceutical Industry |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | The rating is based on the company's standalone financial profile |

## About the company

Incorporated in 2004, SHL 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 categories such as antibiotics, cough preparation, vitamin and mineral supplements, analgesic, anti-malarial, etc. It is listed on the National Stock Exchange (NSE), India. SHL's manufacturing facility is located at Changodar near Ahmedabad, Gujarat; the unit is ISO 9001:2008 and WHO-GMP certified. Apart from this, the company also has certifications from the national drug authorities of the countries to which it exports like Phillipines, Uganda, Ivory Coast, Kenya, Zimbabwe, Cambodia and Peru among others.

The key promoter—Mr. Sanjay S. Shah, who is actively involved in the daily operations, has extensive experience of over 15 years in the pharmaceutical industry.

## Key financial indicators

| | FY2018 | FY2019 | H1 FY2020* |
|---|---|---|---|
| Operating Income (Rs. crore) | 53.42 | 68.81 | 43.23 |
| PAT (Rs. crore) | 3.81 | 7.01 | 4.55 |
| OPBDIT/OI (%) | 24.25% | 25.43% | 25.63% |
| RoCE (%) | 13.22% | 14.99% | 16.06% |
| | | | |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.57 | 0.38 | 0.39 |
| Total Debt/OPBDIT (times) | 1.12 | 0.67 | 0.53 |
| Interest Coverage (times) | 4.96 | 9.45 | 10.90 |
| DSCR | 1.94 | 2.90 | 3.62 |

*Unaudited

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2020) | | | | Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2019 | FY2018 | FY2017 |
| | | | | | 05-Feb-2020 | - | - | - |
| 1 | Cash Credit | Long Term | 8.00 | - | [ICRA]BBB (Stable) | - | - | - |
| 2 | Term Loan | Long Term | 1.50 | 4.74^ | [ICRA]BBB (Stable) | | | |
| 3 | Unallocated Limits | Long Term/ Short Term | 0.50 | | [ICRA]BBB (Stable)/A3+ | | | |

*Amount in Rs. crore; ^ As on March 31, 2019*

## 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

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Cash Credit | NA | NA | NA | 8.00 | [ICRA]BBB (Stable) |
| NA | Term Loan | FY2015 | NA | FY2021-22 | 1.50 | [ICRA]BBB (Stable) |
| NA | Unallocated Limits | NA | NA | NA | 0.50 | [ICRA]BBB (Stable)/A3+ |

*Source: SHL*

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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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