November 02, 2020

Sakar Healthcare Limited: Ratings reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	8.00	8.00	[ICRA]BBB (Stable); Reaffirmed
Term Loan	1.50	73.50	[ICRA]BBB (Stable); Reaffirmed/Assigned
Unallocated Limits	0.50	0.50	[ICRA]BBB (Stable)/A3+; Reaffirmed
Total	**10.00**	**82.00**	

**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 and its healthy financial risk profile, characterised by satisfactory return indicators, and comfortable capital structure and debt-coverage indicators. Moreover, prudent working capital management and the equity raised over the past three-four fiscals have supported the liquidity position. Furthermore, the ratings derive comfort from the company's diversified product profile and geographical presence, along with the ongoing diversification in the oncology segment, which is expected to improve the scale and profitability.

The ratings are, however, constrained by the risks associated with the stabilisation and successful scale-up of operations in the ongoing large debt-funded expansion project to manufacture oncology drugs and active pharmaceutical ingredients (APIs). The ratings are also constrained by SHL's modest scale of operations amid intense competition in the generic formulations industry. Furthermore, the company's operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and to 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

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 geographic presence - The company's product profile is diversified and comprises 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. Moreover, it has diversified geographical presence, with sales to various states in the domestic market and exports primarily to semi-regulated markets of various African countries and the Philippines. The company is increasing its focus on export markets, owing to the intense competition in the domestic generic formulations industry. Export sales increased by 60% YoY to ~Rs. 57.00 crore in FY2020 from ~Rs. 36.00 crore in FY2019. Further, to start exports to the European countries, the company has obtained 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.

The company is also setting up a plant for manufacturing oncology drugs and APIs, for which the capex is ongoing. The company now plans to set up a liquid and lyophilized injectables unit for the oncology segment on top of the previously planned oral solid dosages (OSD)/formulations and API units. The commercial operations for the formulations and the API units are expected to commence from Q2FY2022, while the liquid and lyophilized unit is expected to begin its commercial operations from Q2FY2023. This is expected to further strengthen the company's product portfolio and lead to improvement in scale and profitability.

Healthy financial risk profile - The company's low dependence on external borrowings in the past and the improvement in net worth base over the years have resulted in a comfortable capital structure, with gearing of 0.21 times and net worth base of Rs. 81.32 crore as on March 31, 2020. The company raised an equity of Rs. 40.17 crore over FY2017-FY2019 through an 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 9.18 times, TD/OPBDITA of 0.81 times, a DSCR of 3.49 times and NCA/Debt of 100% in FY2020. Further, its RoCE stood decent at 18.95% in FY2020.

Credit challenges

Risks associated with ongoing expansion project - SHL's ongoing debt-funded capital expenditure—for setting up a new plant to manufacture oncology drugs and APIs—exposes the company to risks associated with timely project implementation and subsequent ramp-up in sales, post commercialisation of operations. The proposed acquirement of bank term loans of ~Rs. 90.00 crore (total cost of the project is ~Rs. 146.00 crore) for the same will moderate the credit metrics in the interim period, till commensurate returns from the same start flowing. Nevertheless, the major repayments for the term loans will commence from FY2022-FY2023 onwards and will be ballooning in nature, providing some comfort to the company.

Modest scale of operations amid intense competition in generic formulations industry - The company's revenue grew at a healthy CAGR of ~19% over FY2015-FY2020; 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.

Exposure to regulatory risks - The company's operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and to 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.

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. 5.74 crore as on March 31, 2020 and low average working capital limit utilisation of ~34% over the last 15 months from June 2019 to August 2020. The company's debt repayments and working capital requirements are expected to increase going forward due to the ongoing debt-funded project capex and subsequent scale up of operations. Nevertheless, the proposed enhancement of working capital limits and the annual cash accruals that are expected to stay in the range of ~Rs. 16-25.00 crore corresponding to annual debt repayments of ~Rs. 1.90-7.17 crore over FY2021-FY2023, will support the liquidity position going forward.

Rating sensitivities

Positive Triggers

- Scale-up of the new plant without any cost and time overruns while maintaining healthy profitability, leading to improvement in the financial risk profile of the company

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 the 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 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, WHO-GMP and EU-GMP certified (liquid and lyophilised injectables units). Apart from this, the company also has certifications from the national drug authorities of the countries to which it exports such as the 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

	FY2019	FY2020	Q1 FY2021*
Operating Income (Rs. crore)	68.81	84.11	20.4
PAT (Rs. crore)	6.69	9.62	-
OPBDIT/OI (%)	25.32%	24.58%	24.1%
PAT/OI (%)	9.73%	11.44%	-
Total Outside Liabilities/Tangible Net Worth (times)	0.36	0.42	-
Total Debt/OPBDIT (times)	0.64	0.81	-
Interest Coverage (times)	7.69	9.18	7.7

*Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					November 02, 2020	February 05, 2020	-	-
1	Cash Credit	Long Term	8.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Term Loan	Long Term	73.50	10.74^	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)		
3	Unallocated Limits	Long Term/ Short Term	0.50		[ICRA]BBB (Stable)/A3+	[ICRA]BBB (Stable)/A3+		

Amount in Rs. crore; ^ As on March 31, 2020

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

ISI	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	FY2020-FY2021	NA	FY2027-FY2028	73.50	[ICRA]BBB (Stable)
NA	Unallocated Limits	NA	NA	NA	0.50	[ICRA]BBB (Stable)/A3+

Source: SHL

Analyst Contacts

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Rishi S Tekchandani
+91 79 4027 1519
rishi.tekchandani@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

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