Innova Captab Limited

April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	61.60 (Reduced from 74.00)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	15.00 (Enhanced from 9.00)	CARE A2 (A Two)	Reaffirmed
Total Facilities	76.60 (Rs. Seventy-Six Crore and Sixty Lakhs Only)		

Detailed Rationale & Key Rating Drivers

While arriving at the rating of Innova Captab Limited (ICL), CARE has taken a combined view of ICL and Innova Captab [IC, rated, 'CARE BBB+; Positive/CARE A2')] as the two entities (together referred to as 'Group'), are in the same line of business, have operational linkages, have the same promoters and are controlled by a common management team.

The ratings assigned to the bank facilities of ICL continue to derive strength from the experienced promoters of the Innova group, healthy and improving profitability margins, and comfortable overall solvency position. The ratings further derive strength from the approved manufacturing facilities, diversified product profile and established relationships with reputed client base.

The ratings are, however, constrained by the modest, albeit, increasing scale of group's operations, limited presence in the chronic therapeutic segments, susceptibility of profitability margins to raw material price volatility, regulatory policy risk, and highly competitive & fragmented nature of the industry.

Rating sensitivities

Positive factors

- Increasing scale of operations to ~Rs.600 cr.
- Substantial and sustainable growth in the operating income with PBILDT margins improving beyond the historical ~13-14% levels

Negative factors

- Deterioration in the solvency position with overall gearing ratio increasing beyond 0.75x owing to debt funded capex, increased working capital reliance or capital withdrawal, etc.
- Any significant down trend in scale of operations with PBILDT margins falling consistently below ~10%
- Discontinuation of relationship with some of the existing customers from where the group is getting regular business

<u>Outlook: Positive</u>

The outlook has been revised to 'Positive' on account of expected scale up of operations and improvement in solvency position going forward, backed by improving profitability, healthy cash accrual generation and declining debt through term debt repayments.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: The oldest entity of the Innova group, IC (rated, 'CARE BBB+; Positive/CARE A2'), was incorporated in the year 2005 by Mr. Gian Prakash Agarwal, Mr. Manoj Kumar Lohariwala and Mr. Vinay Kumar Lohariwala. Mr. Gian Prakash Aggarwal (also the current partners in IC and directors in ICL) has an industry experience of nearly two and a half decades while Mr. Manoj Kumar and Mr. Vinay Kumar have an industry experience of more than one and a half decade each.

Healthy and improving profitability margins: The profitability margins of the group have remained healthy and improved further with PBILDT and PAT margins at 13.88% and 7.69% respectively, in FY20 (refers to the period April 01 to March 31). The improvement was mainly on account of higher sales under various brand names owned by the group entity (Uventis Medicare Limited) which is a high margin yielding segment. In 9MFY21, the PBILDT margins of the group stood at 15.03% compared to 12.95% in 9MFY20 while the PAT margins stood at 9.48% in 9MFY21 compared to 7.00% in 9MFY20.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Comfortable overall solvency position: The long-term debt to equity and overall gearing ratios remained comfortable and improved to 0.18x and 0.39x respectively, as on March 31, 2020 from 0.38x and 0.67x respectively, as on March 31, 2019 on account of scheduled term loan repayments and prepayment of term loans along with accretion of profits to the net worth. The debt coverage indicators remained comfortable with PBILDT interest coverage ratio of 14.22x in FY20 improving from 9.97x in FY19 on account of increased PBILDT in absolute value terms. The total debt to GCA ratio also remained comfortable at 1.25x as on March 31, 2020 improving from 1.87x as on March 31, 2019 on account of higher cash accrual generation and lower debt outstanding at the end of the year.

Approved manufacturing facilities: The manufacturing plants of both IC and ICL are WHO-GMP (World Health Organisation-Good Manufacturing Practices) certified by the WHO and comply with the GLP (Good Laboratory Practices) norms. The group holds drug manufacturing licenses for the manufacturing of various formulations from the Himachal Pradesh State Drug Controlling and Licensing Authority. The group also holds approvals to sell various products to export destinations in less regulated markets like Ghana, Nigeria, Afghanistan, etc. The group derived ~7% of the total income from exports in FY20.

Established group relationships with reputed client base and a diversified product profile: The group has been engaged in the contract-based manufacturing of pharmaceutical formulations since 2005 which has led to well-established relations with its customers and suppliers. The group is engaged in the contract manufacturing of formulations for both domestic and foreign pharmaceutical companies including several reputed entities. In addition, it derived ~11% of its total income in FY20 from manufacturing of generic formulations for government entities on tender basis. The group also derived ~17% of its sales in FY20 from another group concern- Univentis Medicare Limited (UML), which further sells under self-owned brands. The group manufactures a wide variety of drug compositions in the form of tablets, capsules, syrups, injectibles etc. The product line finds its application in a wide range of therapeutic segments like anti-allergic, anti-diabetic, analgesic, anti-malarial, anti-biotic formulations, dietary supplements, steroids, anti-inflammatory etc. With ICL's new manufacturing unit operational in March-2017 and enhanced capacities operational since August-2017, the group is also deriving increased proportion of income from non-antibiotic formulations.

Key rating weaknesses

Modest; albeit, increasing scale of operations: The scale of operations of the group remained modest at Rs.505.95 Cr. in FY20. The same however, grew by ~6% from FY19 on account of higher government tenders executed, higher export sales as well as higher sales under various brand names owned by the group entity (UML). In 9MFY21 (Prov.), the scale of operations increased by ~10% to Rs.430.93 cr. compared to Rs.390 cr. In 9MFY20 (Prov.).

Limited presence in chronic therapeutic segment: The group derived around 60-65% of the total income in FY20 from general formulations while the remaining is derived from cephalosporin formulations. The group, therefore, has limited presence in the chronic therapeutic segment.

Susceptibility of profitability margins to raw material prices: With raw material costs forming ~76% of the total income in FY20 and high competition in the unpatented formulations segment, the profitability margins remain susceptible to volatility in raw material prices.

Highly competitive and fragmented nature of the industry with inherent regulatory risk: The group is engaged in the manufacturing of generic formulations and contract based pharmaceutical formulations. The industry is characterized by a high level of competition with presence of a large number of small and big players. Pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across various geographies.

Liquidity: Adequate - The group had satisfactory current and quick ratios of 1.69x and 1.18x respectively, as on March 31, 2020 as compared to 1.69x and 1.18x respectively, as on March 31, 2019. The group had a repayment obligation of Rs.6.60 Cr. in FY21 which is to be met through the sufficient cash accrual generation projected. The combined average utilization of the working capital limits remained comfortable at ~30% for the last twelve-month period ended February-2021. The average operating cycle of the group also remained moderate and almost at previous year's levels at ~71 days, as on March 31, 2020. The group plans to avail additional long-term loans of Rs. 40.00 cr. pertaining to the proposed capex of Rs. 65.00 cr. in FY22, to increase its capacities. The remaining cost of Rs.25. cr. will be incurred from the internal accruals generated. The capex is expected to be completed within FY22 itself. Including this capex, the group plans to incur a total of ~Rs.300 Cr. to increase its capacities in the next 3 years. The same is proposed to be funded through a mix of debt/ equity/ internal accruals. The group had not availed moratorium period offered by RBI in light of COVID-19. Furthermore, the company had not availed any emergency Covid line in the light of Covid-19 pandemic.

Analytical Approach: Combined. The financial and business risk profiles of IC and ICL have been combined as the two entities (together referred to as 'Group') are in the same line of business, have the same promoters and a common management team as well as operational linkages.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's methodology for Short Term Instruments
Rating Methodology-Pharmaceutical sector
Rating Methodology -Factoring linkages in ratings

About the company (ICL)
Incorporated in 2005, ICL is engaged in the manufacturing of pharmaceutical formulations since 2010. The formulations are manufactured on contract basis for both domestic and foreign pharmaceutical companies. ICL also engages in export of formulations to less regulated markets like Nigeria, Kenya, Ethopia, etc. Export income constituted ~7% of the total operating income in FY20. In addition, sales are also made through another group concern, Univentis Medicare Limited (17% of the total income in FY20) which further sells under several self-owned brand names in the domestic market. The company has IC and Nugenic Pharma Private Limited as its group concerns which are engaged in the manufacturing of pharmaceutical formulations and the pharmaceutical packaging business, respectively.

Brief Financials (Rs. crore); ICL	FY19 (A)	FY20 (A)
Total operating income	357.21	371.41
PBILDT	40.10	48.89
PAT	19.13	25.81
Overall gearing (times)	0.87	0.49
Interest coverage (times)	7.42	11.19

A: Audited
Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July-2024	11.60	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BBB+; Positive
Fund-based - ST-Working Capital Limits	-	-	-	5.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	11.60	CARE BBB+; Positive	1)CARE BBB+; Stable (06-Apr-20)	1)CARE BBB+; Stable (02-Apr-19)	1)CARE BBB+; Stable (05-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB+; Positive	1)CARE BBB+; Stable (06-Apr-20)	1)CARE BBB+; Stable (02-Apr-19)	1)CARE BBB+; Stable (05-Apr-18)	-
3.	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A2	1)CARE A2 (06-Apr-20)	1)CARE A2 (02-Apr-19)	1)CARE A2 (05-Apr-18)	-
4.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A2	1)CARE A2 (06-Apr-20)	1)CARE A2 (02-Apr-19)	1)CARE A2 (05-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Working Capital Limits	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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