Innova Captab Limited

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	151.97	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)
Short Term Bank Facilities	30.00	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	**181.97 (Rs. One Hundred Eighty-One Crore and Ninety-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has changed its approach from Combined to Standalone subsequent to transfer of entire business operations and assets of Innova Captab (partnership firm) to ICL on slump sale basis.

Further, the revision in the ratings assigned to the bank facilities of Innova Captab Limited (ICL) factors in sequential growth in total operating income of company over the past years and improved significantly during 9MFY22 (refers to the period April 1 to December 31) coupled with stable PBILDT Margin. The improvement in total operating income was owing to manufacturing capacity expansion which resulted in higher productivity and sales. The ratings continue to derive strength from the experienced promoters of the company, its comfortable overall solvency position and debt coverage indicators. 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 company's 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 - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations to ~Rs.1100 cr. with stable PBILDT margin on sustained basis
- Improvement in overall cash flows and reduction in gross current assets on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the solvency position with overall gearing ratio increasing beyond 1x owing to debt funded capex, increased working capital reliance, 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

Detailed description of the key rating drivers

Key Rating Strengths

Growing scale of operations with stable profitability margins: The total operating income of the company grew by 9.82% to Rs.411.39 crore in FY21 due to higher government tenders executed, higher exports sales as well as higher sale under various brand names owned by the wholly owned subsidiary (Univentis Medicare Limited-UML). The profitability margins remained moderate with the PBILDT and PAT margins at 13.42% and 8.39% respectively, in FY21. The PBILDT margin moderated slightly owing to relatively higher employee cost and manufacturing expenses. However, PAT margin improved from 7.44% in FY20 to 8.39% in FY21 owing to lower depreciation and interest expenses incurred.

In 9MFY22 (Prov.) (refers to the period April 1 to December 31), the company has achieved a total operating income of ~Rs.582 cr. with healthy PBILDT margin at 12.72%. PAT margin of company moderated slightly to 8% in 9MFY22 due to higher depreciation cost and interest expense since company had taken business from Innova Captab on slump sale business and capacity expansion done by company which was partly funded through term loans from banks.

Experienced promoters: The company was incorporated in the year 2005 by Mr. Gian Prakash Agarwal, Mr. Manoj Kumar Lohariwala and Mr. Vinay Kumar Lohariwala. Mr. Gian Prakash Aggarwal who have 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.

Approved manufacturing facilities: The manufacturing plants of ICL are WHO-GMP (World Health Organisation Good Manufacturing Practices) certified by the WHO and comply with the GLP (Good Laboratory Practices) norms. The company holds drug manufacturing licenses for the manufacturing of various formulations from the Himachal Pradesh State Drug Controlling

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

and Licensing Authority. The company also holds approvals to sell various products to export destinations in less regulated markets like Ghana, Nigeria, Afghanistan, etc. The group derived ~10% of the total income from exports in FY21 (PY: ~7% during FY20).

Established group relationship with reputed client base and a diversified product profile: The company is engaged in the contract-based manufacturing of pharmaceutical formulations since 2005 which has led to well-established relations with its customers and suppliers. The company contract manufactures formulations for both domestic and foreign pharmaceutical companies including several reputed entities. In addition, the company also manufactures generic formulations for government entities on tender basis which accounts for 10-12% of total operating income. The company also derived ~21% of its sales in FY21 from another group concern- Univentis Medicare Limited (UML), which further sells under self-owned brands. The company 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, non-antibiotic formulations. etc.

Comfortable overall solvency position: The long-term debt to equity and overall gearing ratios remained comfortable and improved to 0.08x and 0.32x respectively, as on March 31, 2021, from 0.16x and 0.49x respectively, as on March 31, 2020 on account of scheduled term loan repayments and prepayment of term loans along with accretion of profits to the net worth. However, with additional term loans and unsecured availed by company for capacity expansion coupled with higher working capital utilisation in line with growing scale of operations. The debt coverage indicators remained comfortable with interest coverage ratio of 14.06x in FY21 which improved from 11.28x in FY20 on account of increased PBILDT in absolute value. The total debt to GCA ratio also remained comfortable at 1.13x as on March 31, 2021, improving from 1.41x as on March 31, 2020, on account of higher cash accrual generation and lower debt outstanding at the end of the year.

Key Rating Weaknesses

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

Susceptibility of profitability margins to raw material prices: With raw material costs forming ~74% of the total income in FY21 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.

Industry outlook

India is prominently and rapidly growing its presence in global pharmaceuticals. It is the largest provider of generic medicines globally, occupying a 20% share in global supply by volume, and also supplies 62% of the global demand for vaccines. Furthermore, COVID-19 has presented both, an opportunity and a challenge, for India to emerge as the 'pharmacy of the world'. Indian Pharma Industry has exhibited a compounded annual growth rate (CAGR) of about 7.20% during FY17-FY21 and registered a growth of about 12% during FY21. The wide opportunity that exists ahead for the Indian pharma sector due to the increase in penetration of health insurance, growing chronic diseases, pharma companies endeavouring to move up in the value-chain towards New Chemical Entity (NCE), biosimilars and specialty drugs, combined with the support from the government, increase in interest expressed by private equity players in the industry, bodes well for the sector.

Liquidity: Adequate

The company had sufficient gross cash accruals (GCA) against debt obligations of Rs. 5-6 crores per annum. The company has a scheduled repayment obligation of Rs.5.72 Cr. in FY23 which against expected cash accruals of more than Rs. 75 crores. Further, no major capex planned during FY23. The average utilization of the working capital limits remained comfortable at around ~43% for the last twelve-month period ended December 2021. The average operating cycle of the company also remained moderate at ~87 days as on March 31, 2021. The company had a free cash and bank balance of Rs. 4.80 crores as on March 31, 2021.

Analytical approach: Standalone. CARE has changed its approach from Combined to Standalone subsequent to transfer of entire business operations and assets of Innova Captab (partnership firm) to ICL on slump sale basis.

Applicable Criteria
[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing Companies](#)
[Pharmaceutical](#)

About the Company
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 ~10% of the total operating income in FY21. In addition, sales are also made through another group concern, Univentis Medicare Limited (21% of the total income in FY21) which further sells under several self-owned brand names in the domestic market. The company 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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	374.59	411.39	581.74
PBILDT	52.20	55.21	73.99
PAT	27.89	34.50	46.55
Overall gearing (times)	0.49	0.32	0.64
Interest coverage (times)	11.28	14.06	13.73

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2029	46.97	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	105.00	CARE A-; Stable
Fund-based - ST-Working Capital Limits		-	-	-	10.00	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	20.00	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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	46.97	CARE A-; Stable	-	1)CARE BBB+; Positive (06-Apr-21)	1)CARE BBB+; Stable (06-Apr-20)	1)CARE BBB+; Stable (02-Apr-19)
2	Fund-based - LT-Cash Credit	LT	105.00	CARE A-; Stable	-	1)CARE BBB+; Positive (06-Apr-21)	1)CARE BBB+; Stable (06-Apr-20)	1)CARE BBB+; Stable (02-Apr-19)
3	Fund-based - ST-Working Capital Limits	ST	10.00	CARE A2+	-	1)CARE A2 (06-Apr-21)	1)CARE A2 (06-Apr-20)	1)CARE A2 (02-Apr-19)
4	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+	-	1)CARE A2 (06-Apr-21)	1)CARE A2 (06-Apr-20)	1)CARE A2 (02-Apr-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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

Sr. No	Name of 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

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please [click here]

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

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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