Innova Captab Limited

May 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	406.97	CARE A- (RWN)	Placed on Rating Watch with Negative Implications
Short Term Bank Facilities	30.00	CARE A2+ (RWN)	Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Innova Captab Limited have been placed on credit watch with Negative implications on account of announcement of acquisition of Sharon Bio-medicine Limited through National Company Law Tribunal (NCLT) which will be majorly funded through debt and internal accruals of the company. CARE will continue to monitor the developments in this regard and will take a view on the ratings, once the exact implications of the above on the credit profile of the company is clear.

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 also take into cognizance the growing scale of operations of the company with stable profitability margins. 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. The ratings strengths are also tempered by the project risk for high debt funded capex related to setting up of a new manufacturing unit at Kathua, Jammu and committed cash accruals for the project.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations by about 20% while reporting PBILDT margin of about 15% along with positive cashflow from operations on sustained basis.
- Improvement in overall cash flows, reduction in gross current assets and improvement in overall gearing below 0.5x on sustained basis

Negative factors

- Any delay in raising funds through Initial Public Offer (IPO) which may result in deterioration in overall gearing higher than 1x on consolidated basis on sustained basis.
- Any time or cost overrun in the project impacting the cash accruals/liquidity of the company.
- Any significant down trend in scale of operations with PBILDT margin falling consistently below ~10% resulting from discontinuation of relationship with some of the existing customers from where the group is getting regular business.
- Deterioration in overall cash flows and increase in gross current assets on sustained basis resulting in negative cash flow from operations.

Analytical approach: Consolidated.

CARE has taken Consolidated approach since Univentis Medicare Limited (UML) which is a group concern engaged in marketing of pharmaceuticals is a wholly owned subsidiary of the Innova Captab Limited (ICL). Univentis Foundation which is a trust and is promoted by the common promoters has also been consolidated in ICL.

Entities consolidated are as below:

Name of the entity	Shareholding as on March 31, 2022
Univentis Medicare Limited	100%
Univentis Foundation	100%

Detailed description of the key rating drivers:

Key strengths

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.

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

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 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 FY22 (PY: ~10% during FY21).

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 sells its products under self-owned brands in wholly owned subsidiary- Univentis Medicare Limited (UML) and same contributed around ~21% of its total operating income in FY22. 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, antibiotic formulations, dietary supplements, steroids, anti-inflammatory, non-antibiotic formulations. etc.

Growing scale of operations with stable profitability margins: The total operating income of the company grew by 95% to Rs.802.22 crore in FY22 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). Further, growth in total operating income was supported by business taken from Innova Captab on slump sale business and capacity expansion done by company which was partly funded through term loans from banks. During FY22, the company also made its group company, UML, a wholly owned subsidiary which was earlier held by the promoters of the company. The profitability margins remained moderate with the PBILDT and PAT margins at 12.21% and 7.97% respectively, in FY22. The PBILDT margin moderated slightly owing to relatively higher employee cost and manufacturing expenses. However, PAT margins also moderated slightly from 8.39% in FY21 to 7.97% in FY22 owing to higher depreciation and interest expenses incurred which was primarily driven by capacity expansion done during FY22. In 9MFY23 (Unaudited) (refers to the period April 1 to December 31), the company has achieved a total operating income of ~Rs.692 cr. with PBILDT margin at 13.66%. PAT margin also stood moderate at ~8% in 9MFY23 which improved slightly with consolidation of business of Innova Captab and UML in ICL.

Comfortable overall solvency position: The long-term debt to equity and overall gearing ratios remained comfortable and moderated slightly to 0.41x and 1.04x respectively, as on March 31, 2022. The moderation in the overall solvency position was primarily driven by additional debt availed for capacity expansion and higher working capital borrowings to fund growth in scale of operations. The debt coverage indicators remained comfortable with interest coverage ratio at 15.93x in FY22, improving from 12.53x in FY21, on account of increased PBILDT in absolute terms. The total debt to GCA ratio remained comfortable at 2.79x as on March 31, 2022, moderating from 1.13x as on March 31, 2021, owing to higher debt outstanding as on March 31, 2022. The company has also raised Rs. 50 crores in the form of Compulsory Convertible Preference shares which resulted in improvement in overall gearing of the company to 0.65x as on December 31, 2022. Going forward, debt coverage metrics of the company is expected to moderate further owing to additional proposed term debt to be availed for setting up of new manufacturing unit at Kathua, Jammu and debt funded acquisition of Sharon Bio Medicine Limited. However, the company is planning to raise funds through Initial Public Offer (IPO) during H1FY24 (refers to period April 1 to September 30) and will be utilizing the proceeds to reduce the debt of the company. Any delay in IPO will remain a key credit monitorable.

Key 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 ~75% of the total income in FY22 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.

Project Risk arising out of the sizeable capex plans: The company is setting up a unit at Kathua, Jammu under the New Industrial Development scheme for Jammu & Kashmir 2021 introduced by Government of India. Under the said scheme, company will be getting a capital incentive of Rs. 7.5 crores from government coupled with capital interest subvention at 6% for maximum 7 years. The company will also be getting GST linked incentives under the said scheme. The total project cost is proposed to be around Rs. 343 crores which will be financed using debt and equity in the ratio 2:1. The company has got a sanction of Rs. 230 crores from HDFC Bank which will be disbursed in a phased manner with execution of the project. The company expects to start commercial production of the project by end of FY24. The ability of the company to complete the project without any cost or time over run along with stabilization and streamlining of revenues will remain a key monitorable.

Liquidity: Adequate

The company had a moderate current and quick ratios of 1.29x and 0.86x respectively, as on March 31, 2022 as compared to 1.22x and 0.8x respectively as on March 31, 2021. The company had free cash and bank balances of Rs.14.73 Cr. as on December 31, 2022. The average utilization of the working capital limits remained comfortable at around ~60% for the last twelve-month period ended October 2022. The company is projected to incur a capex of around Rs. 343 crores in FY23 and FY24 which shall be funded through internal accruals and term debt of around Rs. 230 crores. Further, internal accruals will also be utilised to fund the part of acquisition of the Sharon Bio Medicine Limited.

Applicable criteria

Policy on default recognition
Consolidation
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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

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 FY22. 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	411.11	802.22	692.48
PBILDT	54.93	97.98	94.58
PAT	34.5	63.95	55.95
Overall gearing (times)	0.32	1.04	0.65
Interest coverage (times)	13.99	17.25	8.12

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	160.00	CARE A- (RWN)
Fund-based - LT-Term Loan	-	-	-	September 2032	246.97	CARE A- (RWN)
Fund-based - ST-Working Capital Limits	-	-	-	-	10.00	CARE A2+ (RWN)
Non-fund-based - ST-BG/LC	-	-	-	-	20.00	CARE A2+ (RWN)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	246.97	CARE A- (RWN)	-	1)CARE A-; Stable (07-Feb-23) 2)CARE A-; Stable (07-Apr-22)	1)CARE BBB+; Positive (06-Apr-21)	1)CARE BBB+; Stable (06-Apr-20)
2	Fund-based - LT-Cash Credit	LT	160.00	CARE A- (RWN)	-	1)CARE A-; Stable (07-Feb-23) 2)CARE A-; Stable (07-Apr-22)	1)CARE BBB+; Positive (06-Apr-21)	1)CARE BBB+; Stable (06-Apr-20)
3	Fund-based - ST-Working Capital Limits	ST	10.00	CARE A2+ (RWN)	-	1)CARE A2+ (07-Feb-23) 2)CARE A2+ (07-Apr-22)	1)CARE A2 (06-Apr-21)	1)CARE A2 (06-Apr-20)
4	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+ (RWN)	-	1)CARE A2+ (07-Feb-23) 2)CARE A2+ (07-Apr-22)	1)CARE A2 (06-Apr-21)	1)CARE A2 (06-Apr-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here]

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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