Nectar Lifesciences Limited

July 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	800.06	CARE B+; Stable	Assigned
Short Term Bank Facilities	299.94	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Nectar Lifesciences Limited (NLL) are constrained by unsteady and fluctuating revenue over time, declining operating margins and therapeutic concentration risk. The ratings are also tempered by working capital intensive nature of operations, succession risk, high pledging of shares, history of debt restructuring, and regulatory risk associated with pharma industry. The ratings, however, are underpinned by long track record of operation, experienced promoters, accredited manufacturing facility with established customer base.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Steady improvement in scale of operations by about 10% to 15% while maintaining PBILDT margin above 10% consistently leading to overall improvement in credit risk profile.
- Consistent improvement in filing of ANDAs and launch of new molecules.
- Improved segment and product diversification.

Negative factors

- Any major debt funded capex which potentially impacts liquidity and resulting in overall gearing going beyond 1.5x.
- Decline in revenue by over 15% and PBILDT margin going below 5%.

Analytical approach: Consolidated

The subsidiaries of NLL which have been consolidated are mentioned in Annexure-6.

Outlook: Stable

The stable outlook reflects the rated entity is likely to improve its operational performance y-o-y and will maintain its business risk profile over the medium term.

Detailed description of the key rating drivers:

Key weaknesses

One time resolution (OTR) plan opted during COVID-19

During Covid-19, NLL has opted for OTR. The pandemic induced lock downs and curfews led to stoppages in production, migration of trained labour, supply chain disruption, cancellation of bulk orders, delay in sales realizations and reduction in demand of the products on account of which there was temporary mismatch in cash flows which led to delays in servicing debt obligations. To come out from this situation, company invoked Resolution Plan on December 24, 2020 and Inter-Creditor Agreement was executed on January 14, 2021 under Covid-19 framework as per RBI guidelines. The resolution plan was successfully implemented on June 21, 2021. Company has been servicing its debt obligation regularly on time post restructuring.

Segment concentration risk

NLL is primarily into manufacturing and marketing of cephalosporin range of products where it derived more than 90% of its revenue. While within cephalosporin company has various products under oral and sterile, however, in terms of therapeutic segment there is product concentration risk. Company caters only to anti-infective segment which is subject to intense competition.

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

Elongated operating cycle

The operation of NLL is working capital intensive. As on March 31, 2023, company's operating cycle days stood at 154 days with inventory days standing at 163 days and collection period at 76 days. The average working capital utilisation for the company for the month ending April 2022 remained high at about 99%.

Succession risk

Mr Sanjiv Goyal the promoter of NLL has two sons; Mr Saurabh Goyal and Mr Aryan Goyal. Both the sons of Mr Sanjiv Goyal were working as Executive Directors and were also shareholders, however, both the sons have resigned from the company from 2018 after amicable settlement within the family and have started their own venture. There was a family partition deed between the family members and as per this deed, Mr. Saurabh and Mr. Aryan had issued an advertisement in the newspaper and filed a letter with SEBI and Stock Exchanges regarding their disassociation with NLL by October 1, 2020. Though the succession risk exists however management has opined that the company is run by professional management and the same will continue going forward.

Stable operations albeit fluctuating revenue and declining operating margins

Over a period of 10 years company has witnessed fluctuating revenue and operating margins. Its revenue has fluctuated between Rs 1638 crore in FY14 to Rs 2783 crore in FY19 and again declining to Rs 1525 crore in FY23. The operating margins similarly has fluctuated over the same period from about 18% to 4%. Company primarily operates in 3 verticals viz. pharma (bulk drugs and formulation), menthol and empty hard gelatine capsules (EHGC). Company has the large capacity for menthol products which was an agri based product. This segment before FY20 used to contribute about 40% of the revenue and was garnering better margins. However, this segment has witnessed a continuous decline over last four-five years due to availability of chemical based menthol products which are more cost effective. This has led to decline in operating margins over time. Further, in the pharma segment due to stiff competition and pricing pressure company has witnessed steady decline in operating margins. During FY23, company has not generated any revenue from menthol segment and in pharma segment company has witnessed substantial decline in operating margins due to pricing pressure coupled with presence of high-cost inventory in the stock, the price increase of which could not be passed on. This also led to reporting of losses in Q2FY23 and Q3FY23 where company reported net loss of Rs 32.47 crore and 17.56 crore. However, from Q4FY23 the margins have stabilised and the same is continuing in FY24.

Moderate overall financial risk profile

NLL has moderate capital structure as on March 31,2023. Debt to equity ratio marginally improved and stood at 0.22x against 0.34x as on March 31, 2022. Further, overall gearing for FY23 stood at 0.74x vis-à-vis 0.82x in FY22. Debt risk metrics (term debt/GCA and total debt/GCA) have weakened in FY23 to 13.56x and 45.14x (against 3.92x and 9.44x in FY22) due to loss reported during FY23. The total term loan outstanding has decreased from Rs 347.16 crore in FY22 to Rs 281.92 crore in FY23. Interest coverage parameters (PBILDT/interest) came down to 0.68x during FY23 from 2.01x during FY22 and total debt to PBILDT deteriorated to 13.97x in FY23 from 5.42x in FY22 on account of decline in profitability. Further, 100% of the promoter's shares are pledged.

Exposure to regulatory risk

The company is exposed to regulatory risk with its operations centered majorly into manufacturing pharmaceutical APIs and formulations. The pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company.

Foreign exchange fluctuation risk

NLL is exposed to foreign exchange fluctuation risk in view of large volume and high value transactions of export and import, a phenomenon common to the players in the industry. However, there is presence of partial natural hedge. Company also imports about 55% of its raw material from China.

Key strengths

Established track record of operations

NLL has established track record of operations of over three decades in pharmaceutical market. Company is a leading player in cephalosporin range of products which includes both oral and sterile cephalosporin which are anti-infectives and are used in antibiotics. In oral cephalosporin company's product includes cefixime (for bacterial infection), cefurozime axetil crystalline (for Pneumonia infection), cefuroxime axetil amorphous (for sinusitis), cedpodoxime proxetil (for bronchitis), cefprozil (infections like skin, ears, throat etc). Products in sterile includes cefotaxime sodium, ceftriaxone sodium, cefuroxime sodium, cefazolin sodium, ceftazidime pentahydrate. Based on their age profile cephalosporins are segmented into first, second, third and fourth generation molecules. The first generation molecules have the largest market share but most of them are currently witnessing de-growth. However, the second, third and fourth generation cephalosporins are increasingly becoming popular and are also witnessing growth.

Accredited manufacturing plant approved from various regulatory authorities
NLL has 13 manufacturing plants some of which are approved by various regulatory authorities such as US FDA, EUGMP Inframed (Europe), KFDA(Korea), PMDA (Japan), COFEPRIS (Mexico), MCC (South Africa) and ANVISA Brazil. Till date company has filed 44 drug master files (DMF) and 15 Abbreviated New Drug Applications (ANDA). Further, company has also filed 27 patents till now. Besides this company has one plant for making EHGC.

Reputed and globally diversified customer base
The company has reputed and diversified customer base spread across over 60 countries. During FY23, company derived about 53% of its revenue from export markets (PY:40%). The major contribution from export in FY23 is from UK (Rs 245 crore), Bangladesh (Rs 96 crore) and Vietnam (Rs 91 crore). Top 5 customers during FY23 contributed about 27% of the total revenue.

Liquidity: Adequate

The liquidity position of NLL is adequate. During FY23, company generated cash flow from operating activities to the tune of Rs 133.37 crore. Further, on account of sale of non-core assets company generated cash to the extent of Rs 52 crore in FY23. During FY23, company repaid term loan of Rs 66.08 crore. Going forward, for FY24 and FY25 company is expected to generate cash accruals in the range of Rs 90-Rs 100 crore and in FY24 company is expected to realise Rs 70 crore from the sale of non-core assets, which as per lender's stipulation, will go towards reducing the working capital limits and payment of term loan. During FY24, company has total repayment obligation of Rs 68.44 crore. Further as on March 31, 2023, company had cash and liquid investments to the tune of Rs 17.58 crore. Considering the expected cash accruals and the liquidity balance company has, it is expected that NLL will be able to comfortably meet its debt obligation during FY24.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks : Not applicable

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

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

Founded in 1995, by Mr Sanjiv Goyal, Nectar Lifesciences Ltd (NLL) is a research based pharmaceutical company which is primarily engaged in manufacturing of active pharmaceutical ingredients (APIs) and formulation. The company has 13 state -of-the-art manufacturing facilities spread across Punjab and Himachal Pradesh. The company is in to manufacturing of Cephalosporin (both oral and sterile) at its two units in Derabassi and Punjab.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24
Total operating income	1,668.83	1,524.61	NA
PBILDT	158.54	53.95	NA
PAT	25.05	-24.18	NA
Overall gearing (times)	0.82	0.74	NA
Interest coverage (times)	2.01	0.68	NA

A: Audited NA: Not available; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	529.97	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	31/03/2027	151.54	CARE B+; Stable
Fund-based - LT-Working Capital Demand loan		-	-	31/03/2027	52.18	CARE B+; Stable
Fund-based - LT-Working capital Term Loan		-	-	31/03/2027	66.37	CARE B+; Stable
Non-fund-based - ST-BG/LC		-	-	-	299.94	CARE A4

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	151.54	CARE B+; Stable				
2	Fund-based - LT-Working capital Term Loan	LT	66.37	CARE B+; Stable				
3	Fund-based - LT-Cash Credit	LT	529.97	CARE B+; Stable				
4	Non-fund-based - ST-BG/LC	ST	299.94	CARE A4				
5	Fund-based - LT-Working Capital Demand loan	LT	52.18	CARE B+; Stable				

*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 - LT-Working Capital Demand loan	Simple
4	Fund-based - LT-Working capital Term Loan	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries

Sr No.	Name	Relation	Remark
1	Nectar Lifesciences UK Limited	Subsidiary	Dissolved w.e.f. January 31, 2023
2	Nectar Lifesciences USA LLC	Subsidiary	Dissolved w.e.f. February 09, 2023
3	Neclife PT,Unipessoal LDA	Subsidiary	100% subsidiary however inoperative during FY23

w.e.f.: with effect from

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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