Innova Captab Limited

September 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	405.36 (Reduced from 406.97)	CARE A-; Negative	Reaffirmed and removed from Rating Watch with Negative Implications; Negative outlook assigned
Short Term Bank Facilities	30.00	CARE A2+	Reaffirmed and removed from Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE had placed the long-term and short-term ratings of Innova Captab Limited (ICL) on credit watch with negative implications in May 2023, following the announcement of acquisition of Sharon Bio-Medicine Limited (SBML) through National Company Law Tribunal (NCLT) which was expected to be funded through debt and internal accruals of the company.

SBML's acquisition has been successfully concluded on June 30, 2023, by Univentis Medicare Limited (UML, wholly owned subsidiary of ICL), at a total cost of Rs. 195.40 Cr funded through a term loan of Rs. 145 Cr and balance through internal accruals of the group, leading to considerable increase in the debt level at consolidated level which is expected to remain elevated by the end of current fiscal on account of the aforementioned acquisition and the company's planned debt-funded capex in Jammu. In light of the above developments, CARE has removed the credit watch with negative implications and reaffirmed the ratings with revision in outlook to Negative.

The ratings continue to derive strength from the experienced promoters of the company, its approved manufacturing facilities, diversified product profile and established relationships with reputed client base. The ratings also factor in the growing scale of operations of the company with stable profitability margins, however, envisaged ramp-up of operations in SBML along with timely execution and commercialization of Jammu project would remain critical aspects. Further, the company is planning to raise funds through Initial Public Offer (IPO) in Q3FY24 (refers to period October 01 to December 31) in order to de-leverage its capital structure, approval of which has been received from Securities and Exchange Board of India (SEBI) in January 2023.

The ratings are however constrained by expected increase in debt levels, 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 due to high debt funded capex related to setting up of a greenfield 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 20% with a PBILDT margin of more than 15% along with positive operational cash flow on sustained basis leading to improvement in debt coverage indicators.
- Improvement in overall gearing to less than 0.40x at consolidated level.

Negative factors

- Any delay in raising funds through Initial Public Offer (IPO) beyond Q3FY24, which may result in deterioration in overall gearing higher than 1x on consolidated basis.
- Time or cost overrun in the project impacting cash accruals and liquidity of the company.
- Any significant down trend in scale of operations, including lower than envisaged ramp up in operations of Sharon….. with PBILDT margin falling consistently below ~10% on sustained basis leading to deterioration in cash flows from operations.
- Any significant debt funded capex/ acquisition other than envisaged, leading to an overall gearing of more than 1.50x.

Analytical approach: Consolidated

CARE has taken consolidated view of financials of ICL with its subsidiaries/ step-down subsidiaries on account of common promoters and presence of operational as well as financials linkages between the entities. The entities considered for consolidating the financials are provided in Annexure-6.

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

Outlook: Negative

The Negative outlook reflects the envisaged deterioration in the capital structure of the company by the end of current fiscal, in case the company is not able to raise equity through planned IPO during Q3'FY24. The outlook would be revised to Stable if the company is able to raise funds in the form of equity leading to de-leveraging of its capital structure.

Detailed description of the key rating drivers

Key strengths

Experienced promoters: The company was incorporated in the year 2005 and is currently promoted by Mr. Manoj Kumar Lohariwala and Mr. Vinay Kumar Lohariwala. Mr. Manoj Kumar and Mr. Vinay Kumar have an industry experience of more than two decades in the manufacturing and marketing of pharmaceutical products. The directors are involved in the day-to-day operations of the company and are ably supported by a highly qualified and experienced team for various domains.

Approved manufacturing facilities: The company holds EU GMP certification and exports its products to Canada, UK and Rest of the World Market. Acquisition of Sharon gives further edge in regulated market as Sharon have strong presence in UK, Canada & Australia. The company holds drug manufacturing licenses for the manufacturing of various formulations from the Himachal Pradesh State Drug Controlling and Licensing Authority. The recently acquired SBML has two manufacturing units located in Dehradun, Uttarakhand and Taloja, Maharashtra along with a research facility. Both the manufacturing facilities are GMP certified by the respective states. The company also holds approvals to sell various products to export destinations in less regulated markets like Ghana, Nigeria, Afghanistan, etc. The group derived ~9% of the total operating income at consolidated level from exports in FY23 (PY: ~10% during FY22). Going forward, the group's exposure in regulated markets is expected to increase following acquisition of SBML which primarily caters to regulated exports markets such as Canada, United Kingdom, Europe, and Australia, among others.

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 manufactures formulations for both domestic and foreign pharmaceutical companies including several reputed entities such as Cipla Limited [CARE AAA; Stable/ CARE A1+], etc. In addition, the company also manufactures generic formulations for government entities on tender basis which accounts for 6-7% of the total operating income. The company also sells its products under self-owned brands in wholly owned subsidiary- UML and same contributed around ~13% of its total operating income in FY23. The company manufactures a wide variety of drug compositions in the form of tablets, capsules, syrups, injectables 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. With the acquisition of SBML, the group's portfolio is expected to diversify further as it is engaged in the manufacturing of Active Pharma Ingredients (API), Intermediates, Formulations (own brands) and Contract Manufacturing for finished formulations and has a diversified product portfolio with presence mainly in acute therapies along with presence in chronic therapies.

Growing scale of operations with stable profitability margins: The total operating income of the group grew by 15.88% to Rs. 929.61 Cr in FY23 due to higher exports sales as well as higher sale under various brand names owned by UML. Further, growth is further attributable to revenue contribution from UML for the full year in FY23 as against 3 months during the previous financial year. The profitability margins remained stable with the PBILDT and PAT margins at 12.57% and 7.31% respectively, in FY23 (PY: 12.21% and 7.97%, respectively). In Q1FY24 (Unaudited) (refers to the period April 1 to June 30), the group has achieved a total operating income of ~Rs. 228.9 Cr with PAT margin at ~8%. Going forward, the improvement in operational performance is expected to be driven by ramping-up of operations in SBML along with timely execution and commercialization of Jammu project and thus remain key monitorable.

Key weaknesses

Deterioration in overall solvency position: The overall solvency position is expected to moderate in current fiscal from long-term debt to equity and overall gearing ratio of 0.30x and 0.62x respectively, as on March 31, 2023. Moderation is expected due to debt availed for capacity expansion to the tune of Rs. 230 Cr majority of which is likely to be disbursed in current fiscal. The debt levels are further elevated due to the debt-funded acquisition of SBML which led to an increase in total debt by further Rs. 145 Cr. Additionally, the group would have higher working capital requirements to fund growth in scale of operations. However, the company had raised Rs. 50 crores in the form of Compulsory Convertible Preference shares during FY23 and is planning to further raise funds through Initial Public Offer (IPO) during Q3FY24. The company has filed the addendum to Draft Red Herring Prospectus on September 12, 2023. The proceeds from the IPO are proposed to be utilized for de-leveraging the capital structure and thus remain a critical aspect.

Project risk arising out of the sizeable debt funded capex plans: ICL 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 crore 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 estimated at around Rs. 355 crores which would be financed through a term loan of Rs. 230 Cr and balance through internal accruals. The expected date of commencement of operations is April 2024. Timely completion of project without any cost overrun along with stabilization and streamlining of revenues will remain a key monitorable.

Limited presence in chronic therapeutic segment: The company derived around 65-70% 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 ~55% of the total income in FY23 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 liquidity is adequate marked by repayment obligations of Rs. 3.47 Cr for FY24 as against projected cash accruals of around Rs. 109 Cr. The company had current and quick ratios of 1.55x and 1.13x respectively, as on March 31, 2023, as compared to 1.28x and 0.85x respectively as on March 31, 2022. The company had free cash and bank balances of Rs. 7.03 Cr as on March 31, 2023. The average utilization of the working capital limits remained comfortable at around ~66% for the last twelve-month period ended July 2023. The group’s cash accruals for FY24 are also committed for funding the part of capex and acquisition of SBML to the extent of Rs. 150 Cr, which would impact the liquidity position.

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

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 and had a total of 182 contract based (CDMO) customers as on March 31, 2023. ICL also engages in the export of formulations to over 20 countries especially to less regulated markets like Nigeria, Kenya, Ethiopia, etc. The company is further engaged in the procurement of government tenders for manufacturing (on contract basis) which allows it to sell its formulations (generic) in government dispensaries, military camps etc. The company currently operates from its two manufacturing facilities, both in Baddi, Himachal Pradesh.

Brief Financials (₹ crore)- Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	802.22	929.61	228.9
PBILDT	97.98	116.88	NA
PAT	63.95	67.95	18.4
Overall gearing (times)	1.04	0.62	NA
Interest coverage (times)	17.25	5.85	NA

A: Audited; UA: Unaudited; 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	160.00	CARE A-; Negative
Fund-based - LT-Term Loan		-	-	September 2032	245.36	CARE A-; Negative
Fund-based - ST-Working Capital Limits		-	-	-	10.00	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	20.00	CARE A2+

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	245.36	CARE A-; Negative	1)CARE A- (RWN) (30-May-23)	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)

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
2	Fund-based - LT-Cash Credit	LT	160.00	CARE A-; Negative	1)CARE A- (RWN) (30-May-23)	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+	1)CARE A2+ (RWN) (30-May-23)	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+	1)CARE A2+ (RWN) (30-May-23)	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.

Annexure-6: List of entities forming part of the consolidated financials (as on March 31, 2023)*

S. No.	Name of the companies	% Stake
	Subsidiaries (held directly)	
1.	Univentis Medicare Limited	100.00
2.	Univentis Foundation	100.00

*Owing to acquisition of Sharon w.e.f. June 30, 2023, the financials of the same have also been considered under consolidation for projected years.

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About us:
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