

Natural Capsules Limited (Revised)

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	-	-	Reaffirmed at 'CARE BBB; Stable' and withdrawn
Short-term bank facilities	-	-	Reaffirmed at 'CARE A3+' and withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has withdrawn the outstanding ratings of 'CARE BBB; Stable/CARE A3+' (Triple B; Outlook: Stable/A Three Plus) assigned to the bank facilities of Natural Capsules Limited (NCL) with immediate effect. The above action has been taken at the request of NCL and a 'No Objection Certificate' received from the lender that has extended the facilities rated by CARE Ratings.

The ratings assigned to the bank facilities of NCL derive strength from the experienced promoter with a long track record of operations in the pharmaceutical sector, the established relations with diverse clients leading to repeat orders, as well as the low customer concentration risk and diversified product range.

The ratings also positively factor in the improved financial risk profile, marked by the growing scale of operations and profitability margins, which is expected to continue going forward, supported by a favourable industry outlook.

These ratings' strengths are partially offset by the project implementation and the off-take associated with the large project being undertaken by the company for the expansion of its capsule unit as well as setting up a new active pharmaceutical ingredients (APIs) unit. CARE Ratings, however, notes the company's expectation of the commissioning of the capsules plant's enhanced capacity by Q3FY24 and the start of trial run in the new API plant. Nevertheless, the timely commercialisation of the project and the generation of the envisaged returns are crucial from the credit perspective. The ratings are also tempered by the moderation in the liquidity position of the company with commencement of the capex programme as evidenced by the increased working capital utilisations coupled with the highly fragmented and competitive nature of the industry.

Analytical approach: Consolidated

Subsidiaries consolidated:

Natural Phyto Pharma Pvt Ltd (non-operational)	100%
Natural Biogenex Pvt Ltd (upcoming API business)	90%

Outlook: Stable

CARE Ratings expects that NCL will sustain its scale of operations and improved profitability, aided by the long-standing experience of its promoters in the business.

Detailed description of the key rating drivers

Key strengths

Experienced promoters with long track record of operations in the pharma sector

NCL is promoted by Sunil Kumar Mundra, Managing Director, and his family members. Mundra is a chartered accountant by qualification and has more than 30 years of experience in the pharma sector. Prior to incorporating NCL, the promoters were engaged in API distribution and manufacturing. The company has two manufacturing units – one each in Bengaluru and Pudukcherry, with a combined capacity of 18 billion capsules per annum as on March 31, 2023.

Low customer concentration risk on account of diversified customer base

With over three decades of experience in the pharma sector, the company has built a strong customer base both, domestically as well as in the rest of the world (RoW) markets, which include emerging markets like South Africa, Iran, Bangladesh, Pakistan, Brazil, etc. NCL supplies capsules to diversified customers both, domestically as well as internationally, leading to low customer

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

concentration risk. NCL focuses on quality and timely delivery, which has led to the receipt of repeat orders from its clients.

Diversified product range

The company's product profile is well diversified with the production of a wide range of empty hard gelatine capsule (EHGCs) and hydroxy propyl methyl cellulose (HPMC) having diverse applications. Over the years, NCL had adapted itself to the changing market dynamics with various forms of complex formulations as well as the manufacturing of HPMC capsules (vegetarian capsules) that are used in nutraceuticals and herbal products.

Growing scale of operations with improved profitability margins

The scale of operations of the company improved by 27.62% in FY23 and stood at around ₹172.37 crore in FY23 as compared to ₹135.07 crore in FY22. NCL achieved a total operating income (TOI) of ₹37.87 crore in Q1FY24. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of the company has improved and stood at 20.52% in FY23 as compared to 18.09% in FY22, mainly on account of better absorption of the fixed cost.

Key weaknesses

Project implementation and off-take risk

The company is currently undertaking two projects – one for capacity enhancement to increase the existing capsule capacity to 22-24 billion capsules per annum. The second project pertains to setting up a new API unit in Tumkur, Karnataka, under its wholly owned subsidiary, Natural Biogenex Private Limited (NBPL), to manufacture three steroidal APIs, namely, betamethasone, dexamethasone, and prednisolone, aggregating to a total installed capacity of 37 metric tonne. The company is expecting the commissioning of the enhanced capacity by Q3FY24.

For the greenfield API project, the total capex overlay increased to around ₹160 crore from the estimated ₹95-100 crore due to the increase in the scope of the project. However, NCL secured funding in NBPL for the whole capex outlay, with ₹75 crore from the private equity (PE) fund – Somerset Indus Healthcare, ₹25 crore from high-net-worth (HNI) investors, and ₹48 crore of term loans. NCL also raised around ₹22 crore through rights issue in FY2023 and infused ₹20 crore in NBPL. In addition, the company received working capital sanction at the subsidiary level and enhancements at the parent level. Thus, NCL's consolidated cash accruals and recent funds are adequate to address its ongoing capex and working capital requirements.

The greenfield API facility was expected to commence operations from April 2023, however, due to an increase in the scope of the project, the trial run for the product has commenced during Q2FY24 and the project is expected to commence its operations from Q3FY24. Furthermore, in a pilot phase, NBPL will manufacture APIs in small batches, with large-scale production expected from FY2025. The company is in the process of completing drug inspections, post which it will receive the license to sell APIs in the domestic market. Thus, the timeliness of drug approval is critical for the ramp-up of the facility.

Highly fragmented and competitive nature of the industry with regulatory risks

NCL is engaged in the manufacturing of capsule shells, which is a raw material (excipient) for the pharmaceutical and food supplement industry. The industry is characterised by a high level of competition, having the presence of several small and big players. Furthermore, domestic capsule manufacturers also face stiff competition in the international market from Chinese players, thereby restricting their pricing flexibility, and thus, the ability of the company to pass on the increase in the prices of raw materials.

Applicable criteria

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Consolidation](#)

[Pharmaceutical](#)

[Policy on default recognition](#)

[Policy on Withdrawal of Ratings](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals and biotechnology	Pharmaceuticals

NCL was incorporated in September 1993 and is engaged in the manufacturing of hard gelatine capsule shells and hard cellulose shells to be supplied to various pharma companies in India as well as abroad (primarily un-regulated markets). The company has two manufacturing units – one each in Bengaluru and Pondicherry, with a combined capacity of 18 billion capsules per annum as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	135.07	172.37	37.87
PBILDT	25.64	35.36	6.13
PAT	13.91	18.45	1.82
Overall gearing (times)	0.63	0.66	NA
Interest coverage (times)	12.32	9.49	4.61

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Nil

Any other information: Not available

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	-	-	-	-	0.00	Withdrawn
Fund-based - LT-EPC/PSC	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Stand by Limits	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	Feb 2029	0.00	Withdrawn
Fund-based - LT-Working Capital Demand loan	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn

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	-	-	-	1)CARE BBB; Stable	-	-

						(01-Sep-22)		
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB; Stable (01-Sep-22)	-	-
3	Fund-based - LT-EPC/PSC	LT	-	-	-	1)CARE BBB; Stable (01-Sep-22)	-	-
4	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)CARE BBB; Stable (01-Sep-22)	-	-
5	Fund-based - LT-Stand by Limits	LT	-	-	-	1)CARE BBB; Stable (01-Sep-22)	-	-
6	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A3+ (01-Sep-22)	-	-

LT: Long term; ST: Short term.

Annexure-3: Detailed explanation of the 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-EPC/PSC	Simple
3	Fund-based - LT-Stand by Limits	Simple
4	Fund-based - LT-Term Loan	Simple
5	Fund-based - LT-Working Capital Demand loan	Simple
6	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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