Nectar Lifesciences Limited

March 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	636.97 (Reduced from 800.06)	CARE BB-; Stable	Revised from CARE B+; Stable
Short Term Bank Facilities	5.00	CARE A4	Assigned
Short Term Bank Facilities	352.44 (Enhanced from 299.94)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the long-term rating assigned to Nectar Lifesciences Limited (NLL) takes into consideration steady improvement in its financial performance Q-o-Q in terms of revenue and operating margins, successful monetisation of non-core assets under restructure plan and using the proceeds to reduce the banks limits over and above the stipulation. The company has exhibited revenue growth of 9.50% during 9MFY24 vis-à-vis 9MFY23. Further the PBILDT margins have also improved to 8.41% during 9MFY24 as against 3.16% during 9MFY23. Further reduction of the bank limits, on account of regular repayment and pre-payment of some of its bank facilities, has led to improvement in overall credit risk profile, with overall gearing improving to 0.67x as on September 30, 2023, against 0.74x as on March 31, 2023.

The ratings of NLL are constrained by therapeutic concentration risk, working capital intensive nature of operations and succession risk. The ratings are also tempered by high pledging of shares, history of debt restructuring, and regulatory risk associated with pharma industry. The ratings, however, positively factors 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 with top 5 products contributing less than 50% of the total revenue.

Negative factors

- Any major debt funded capex which potentially impacts liquidity and resulting in overall gearing going beyond 1.20x.
- Decline in revenue by over 15% and PBILDT margin going below 5%.

Analytical approach: Consolidated

The subsidiaries of NLL are consolidated and the same 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

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

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.

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 January 2023 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.

Fluctuating historical revenue and operating margins albeit improvement witnessed during 9MFY24

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. However, the performance of the company during last three quarters (from Q1FY24 to Q3FY24) have witnessed steady improvement. The TOI (total operating income) in 9MFY24 have improved by about 9.50% to Rs 1244 crore from Rs 1136 crore reported during 9MFY23. The improvement was driven by improvement in demand and price. Further the PBILDT margins of the company at the back of stablisation of raw material cost and reduction in power cost has improved by 525 bps from 3.16% in 9MFY23 to 8.41% 9MFY24.

Improving albeit moderate overall financial risk profile

The capital structure of NLL though remains moderate however is witnessing gradual improvement. Debt to equity ratio marginally improved and stood at 0.22x as on March 31, 2023, against 0.34x as on March 31, 2022. Further, overall gearing as on September 30, 2023, improved to 0.67x against 0.74x as on March 31, 2023, and 0.82x as on March 31, 2022. Other debt risk metrics (total debt/GCA and total debt to PBILDT) have also witnessed improvement during H1FY24 and stood at 20.35x and 10.92x against 45.14x and 13.97x in FY23.The total term loan outstanding has decreased from Rs 281.92 crore as on March 31, 2023 to Rs 216.65 crore in March 2024. Interest coverage parameters (PBILDT/interest) have also improved to 1.66x during H1FY24 against 0.68x during FY23. CARE Rating Limited (CARE Ratings) notes although the overall financial risk profile is improving nevertheless 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.

Sale of non-core asset

As per the restructure plan, company was directed to sell its non-core assets (primarily real estate in the form land and flat) and reduce its bank limits (both term loan and working capital) to the extent of Rs 89 crore. Post restructuring company, however, has realised about Rs 135 crore from the sale of non-core assets, and has reduced the limits of the banks to that extent over and above the regular repayment of its working capital term loan facility. Company expects to further realise about Rs 18 crore from the sale of non-core assets.

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 80 countries. During 9MFY24, company derived about 41% of its revenue from export markets (FY23:53%). The major contribution from export in 9MFY24 is from UK (Rs 169 crore), Bangladesh (Rs 44 crore) and Germany (Rs 45 crore). Top 5 customers during 9MFY24 contributed about 26% 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 and Rs 46 crore during 11MFY24. During 11MFY24, company repaid term loan of Rs 62.61 crore as against the total repayment obligations of ~Rs. 68 crore. During 9MFY24 company generated cash accruals of about Rs 50 crore. Going forward, for FY24 and FY25 company is expected to generate cash accruals in the range of Rs 80-Rs 90 crore. During FY25, company has total repayment obligation of Rs 77 crore. Further as on September 30, 2023, company had cash and liquid investments to the tune of Rs 20.04 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.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

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 four 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)	9MFY24 (UA)
Total operating income	1,668.83	1,524.61	1244.27
PBILDT	158.54	53.95	104.59
PAT	25.05	-24.18	4.41
Overall gearing (times)	0.82	0.74	-
Interest coverage (times)	2.01	0.68	1.66

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

Status of non-cooperation with previous CRA: The company has outstanding non-cooperation rating with Brickworks at BWR B; Stable INC/BWR A4.

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		-	-	-	420.32	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	31/03/2027	120.72	CARE BB-; Stable
Fund-based - LT-Working Capital Demand loan		-	-	31/03/2027	41.56	CARE BB-; Stable
Fund-based - LT-Working capital Term Loan		-	-	31/03/2027	54.37	CARE BB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	352.44	CARE A4
Non-fund-based - ST-Forward Contract		-	-	-	5.00	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	120.72	CARE BB-; Stable	1)CARE B+; Stable (05-Jul-23)	-	-	-
2	Fund-based - LT-Working capital Term Loan	LT	54.37	CARE BB-; Stable	1)CARE B+; Stable (05-Jul-23)	-	-	-
3	Fund-based - LT-Cash Credit	LT	420.32	CARE BB-; Stable	1)CARE B+; Stable (05-Jul-23)	-	-	-
4	Non-fund-based - ST-BG/LC	ST	352.44	CARE A4	1)CARE A4 (05-Jul-23)	-	-	-

5	Fund-based - LT-Working Capital Demand loan	LT	41.56	CARE BB-; Stable	1)CARE B+; Stable (05-Jul-23)	-	-	-
6	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A4				

LT: Long term; ST: Short term; LT/ST: 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
6	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Nectar Lifesciences UK Limited	Full	Subsidiary till January 2023 then dissolved
2	Nectar Lifesciences USA LLC	Full	Subsidiary till February 09, 2023, then dissolved
3	Neclife PT,Unipessoal LDA	Full	Subsidiary

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in Naveen Kumar Dhondy Associate Director **CARE Ratings Limited** Phone: +91-40-4010-2030 E-mail: dnaveen.kumar@careedge.in Pritesh Rathi Assistant Director **CARE Ratings Limited** E-mail: Pritesh.Rathi@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in