Innova Captab Limited (Revised)

September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	354.88 (Reduced from 405.36)	CARE A; Stable	Revised from CARE A-; Negative
Short Term Bank Facilities	20.00	CARE A1	Revised from CARE A2+
Short Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Innova Captab Limited (ICL) factor in significant improvement in the financial risk profile of the company post raising Rs.293.11 crore (net of IPO expenses) through Initial Public Offer in December 2023, which has been utilized towards debt reduction, investment in subsidiary company, funding of working capital requirements and general corporate purposes. The ratings also favourably factor in improved operational performance of the company marked by expansion in PBILDT margin supported by the contribution from newly acquired Sharon Bio-Medicine Limited ("Sharon"), which is into the CDMO (Contract Development and Manufacturing Organization) and manufacturing of API (Active Pharmaceutical Ingredients). It is primarily an export-oriented entity with presence into countries such as Canada, the United Kingdom, Australia and Central & South America, thereby fetching better operating profit margins. The improved performance has continued in the current year i.e. Q1FY25 (refers to period from April 01, 2024, to June 30 2024), whereby the company has reported significant growth in top-line and profitability. Further, the expected commencement of Jammu facility by September 2024 is going to contribute to operational efficiencies thereby leading to incremental revenues and profitability. 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 are however constrained by susceptibility of profitability margins to raw material price volatility, regulatory policy risk, and highly competitive & fragmented nature of the CDMO business. Furthermore, the ratings are also tempered by the presence of project implementation and stabilization risk, whereby the company is setting up a facility in Kathua, Jammu. The timely completion of the same without any time and cost overruns would remain a key rating monitorable.

At the request of the company vide e-mail dated August 27, 2024, we hereby withdraw the outstanding rating(s) of 'CARE A; Stable; CARE A1' [A; Outlook: Stable/ A One] assigned to the short-term facility of your company with immediate effect owing to the full repayment.

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 17% along with positive operational cash flow on sustained basis leading to improvement in debt coverage indicators.
- Improvement in overall gearing to less than 0.30x at consolidated level on a sustained basis.

Negative factors

- 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 total debt to PBILDT of more than 1.50x on a sustained basis.

Analytical approach: Consolidated Approach

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: Stable

The outlook has been revised from Negative to 'Stable' considering the successful completion of IPO thereby leading to de-leveraging of its capital structure. Further, CARE Ratings Limited (CARE Ratings) expects company to have stable operational performance and also believes that ICL shall sustain its comfortable financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Comfortable financial risk profile

The financial risk profile of the company improved significantly with improvement in overall gearing ratio, which stood at 0.31x as on March 31, 2024 (PY: 0.62x as on March 31, 2023). The same has been owing to significant improvement in tangible net-worth base with successful completion of IPO and acquisition of Sharon. The share premium received stood at Rs.377.73 crore and the addition to capital reserve stood at Rs.71.20 crore during FY24.The debt coverage indicators also improved with interest coverage ratio (PBILDT/Interest) and total debt to GCA stood at 7.45x and 2.11x as on March 31, 2024 respectively (PY: 5.85x and 2.35x respectively).

Improvement in operational performance

The total operating income of the company improved by ~17% and stood at Rs.1,085.52 crore in FY24 (PY: Rs.929.61 crore). The same is primarily driven by growth in branded generics business (both domestic and international) along with the consolidation of Sharon into the overall sales of the company starting July, 2023. Sharon's revenue for the fiscal year 2024 was Rs.190.23 crore; however, the consolidated financials include revenue for the nine-month period i.e. Rs.143 crore. Further, the number of CDMO products sold by the company has grown by approx. 20% from 2,400+ in FY23 to 2,900+ in FY24 on consolidated basis. The total exports of company contributed around ~23% of the total sales (consolidated) during FY24 (PY: ~9%). The company has also strengthened its sales force especially in the export markets to tap new clients and geographies. The PBILDT margin improved by 222 bps and stood at 14.79% in FY24 (PY: 12.57%) owing to the reduction in raw material cost as a % to total sales and higher margins in Sharon, having major presence into exports i.e. more regulated markets. The PAT margin also improved and stood at 8.69% in FY24 (PY: 7.31%).
Q1FY25 (refers to period from April 01 2024 to June 30 2024) performance: The total operating income of the company recorded y-o-y growth of ~26% and stood at Rs.294.99 crore in FY24 (Q1FY24: Rs.233.50 crore). Further, the PBILDT and PAT margin also improved and stood at 15.02% and 9.99% respectively in FY24 (PY: 13.89% and 7.53% respectively).

Experienced promoters

The company was incorporated in the year 2005 and its promoters are 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. Both the manufacturing facilities are GMP certified by the respective states. The company also holds approvals to sell various products to export destinations in semi-regulated markets like Ghana, Nigeria, Afghanistan, etc. The group's exposure in regulated markets has increased 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. In addition, the company also manufactures generic formulations for government entities on tender basis which accounts for 2-3% of the total operating income. The company also sells its products under self-owned brands in wholly owned subsidiary- UML and its domestic branded business contributed around ~18% of its revenue from operations in FY24. 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 antiallergic, anti-diabetic, analgesic, anti-malarial, antibiotic formulations, dietary supplements, steroids, anti-inflammatory, etc. With the acquisition of SBML, the group's portfolio is expected to diversify further as it is engaged in the CDMO business and manufacturing of API and has a diversified product portfolio with presence mainly in acute therapies along with presence in chronic therapies.

Key weaknesses

Project Implementation and Stabilization Risk

The company is planning to set up a new manufacturing facility in Jammu, which would include tablets, capsules, dry syrups and injections. The company revised cost of Jammu project to Rs.459.37 crore, which includes cost escalation of Rs.33.68 crore & cost of new manufacturing line of Rs.70.52 crore, thereby leading to a total change of Rs.104.20 crore in the original project cost of Rs.355.71 crore. Also, the plant is now expected to achieve COD (Commercialized date of operations) by the end of September 2024. The debt has been tied-up whereby the capex would be funded by term loan of Rs.230 crore and remaining from internal accruals.
Up to June 30, 2024, the company has already spent project cost of Rs.394.85 crore, which has been funded by term loan sanctioned of Rs.230 crore and remaining from internal accruals. Only ~Rs.65 crore of capex is remaining, for which company has sufficient liquidity in the form of fixed deposits of Rs.72 crore as on June 30, 2024, and sufficient cushion in working capital limits.

Susceptibility of profitability margins to raw material prices

With raw material costs forming ~67% of the total income in FY24 and high competition in the unpatented formulations segment, the profitability margins remain susceptible to volatility in raw material prices, however the CDMO business of the company is based on cost pass through model, which helps to mitigate the price fluctuations.

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 company has a scheduled repayment obligation of Rs. 9.77 Cr in FY25 which is projected to be met through the sufficient projected cash accruals. Further, it had comfortable current ratio with free cash and bank balances of Rs. 11.72 Cr as on March 31, 2024. The average utilization of the working capital limits remained low at around ~17% for the last twelve-month period ended June’24.

Environment, social, and governance (ESG) risks

For the pharma industry the main factor of ESG affecting the sector is the social aspects like product safety and quality, human capital & development, access to healthcare. Governance remains a universal concept affecting all the sectors and geographies. Amongst the ESG factors, majority of the pharma companies seems to be focusing on product quality & safety and regulatory compliance in governance.
The company has filed its Business Responsibility and Sustainability Report on BSE/NSE for FY24 and as per the same, the company does not have any history of non-compliance. Also, as per the annual report, the company has implemented various policies such as Vigil Mechanism and Whistle blower policy, Code of Practices and Procedures for fair disclosure of UPSI from their policy to promote diversity on-board, Corporate Social Responsibility policy and ESG policy. The company, therefore, has right framework in place to mitigate the risks associated with the ESG framework.

Applicable criteria

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

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 2005. The formulations are manufactured on contract basis for both domestic and foreign pharmaceutical companies and had a total of 193 contract based (CDMO) customers as on March 31, 2024. ICL also engages in the export of formulations to 25 countries especially to semi-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 various governmental agencies. The company currently operates from its two manufacturing facilities, both in Baddi, Himachal Pradesh.

Brief Financials (₹ crore) (Consolidated)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	929.61	1,085.52	294.99
PBILDT	116.88	160.60	44.30
PAT	67.95	94.34	29.48
Overall gearing (times)	0.62	0.30	NA
Interest coverage (times)	5.85	7.45	316.43

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

Status of non-cooperation with previous CRA: NA
Any other information: NA
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		-	-	-	125.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	30/09/2032	229.88	CARE A; Stable
Fund-based - ST-Working Capital Limits		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	20.00	CARE A1

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	229.88	CARE A; Stable	-	1)CARE A-; Negative (27-Sep-23) 2)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)
2	Fund-based - LT-Cash Credit	LT	125.00	CARE A; Stable	-	1)CARE A-; Negative (27-Sep-23) 2)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)
3	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)CARE A2+ (27-Sep-23) 2)CARE A2+ (RWN) (30-May-23)	1)CARE A2+ (07-Feb-23) 2)CARE A2+ (07-Apr-22)	1)CARE A2 (06-Apr-21)
4	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1	-	1)CARE A2+ (27-Sep-23) 2)CARE A2+ (RWN) (30-May-23)	1)CARE A2+ (07-Feb-23) 2)CARE A2+ (07-Apr-22)	1)CARE A2 (06-Apr-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Univentis Medicare Limited	Full	Subsidiary
2	Univentis Foundation	Full	Subsidiary
3	Sharon Bio-Medicine Limited	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	Sajan Goyal Director **CARE Ratings Limited** Phone: 91-120-4452017 E-mail: sajan.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Sachin Mathur Associate Director **CARE Ratings Limited** Phone: 91-120-4452054 E-mail: sachin.mathur@careedge.in Akanksha Dutta Lead Analyst **CARE Ratings Limited** E-mail: Akanksha.dutta@careedge.in

About us:

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