Nectar Lifesciences Limited

October 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	572.56 (Reduced from 636.97)	CARE BB; Stable	Upgraded from CARE BB-; Stable
Short-term bank facilities	357.44	CARE A4+	Upgraded from CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Nectar Lifesciences Limited (NLL) takes into consideration steady improvement in its financial performance in terms of revenue and operating margins in FY24 (FY refers to April to March) and Q1FY25 and steady debt reduction. The company has exhibited revenue growth of 10.50% in FY24. Operating margins also improved to 9% in FY24 against 3.6% in FY23 and to ~11% in Q1FY25. Reduction of bank limits, considering regular repayment and pre-payment of some of its bank facilities, led to improvement in overall credit risk profile, with overall gearing improving to 0.63x as on March 31, 2024, against 0.74x as on March 31, 2023.

However, ratings of NLL are constrained by therapeutic concentration risk, working capital intensive operations and succession risk. Ratings are also tempered by high pledging of shares, history of debt restructuring, and regulatory risk associated with pharma industry. That considered, ratings positively factor 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 12% to 15% while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 12% consistently leading to overall improvement in credit risk profile.
- Improved segment and product diversification with top five products contributing less than 50% of the total revenue.
- Total debt to PBILDT going below 2.75x.

Negative factors

- Major debt funded capex, which potentially impacts liquidity, resulting in Total debt/PBILDT going above 4.50x.
- Decline in revenue by over 10% and PBILDT margin going below 7%.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has taken consolidated approach or arriving at ratings of NLL, given the linkages with its subsidiaries. Companies considered for consolidation are listed under Annexure-6.

Outlook: Stable

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

Detailed description of key rating drivers:

Key weaknesses

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 products under oral and sterile, however, in terms of therapeutic segment, there is product concentration risk. The company caters only to anti-infective segment, which is subject to intense competition.

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

Elongated operating cycle

NLL's operations are working capital intensive. As on March 31, 2024, the company's operating cycle days though improved however remained high at 187 days (FY23: 210 days) with inventory days standing at 211 days and collection period at 64 days. Improvement in collection period considering higher revenue contribution from domestic market in FY24 led to overall improvement in operating cycle. Average working capital utilisation for the month ending September 2024 remained high at ~97%. Given the nature of operations, CARE Ratings expects the operating cycle to remain in the range of 180-200 days.

Succession risk

NLL's promoter Sanjiv Goyal has two sons; Saurabh Goyal and Aryan Goyal; both were working as Executive Directors and were shareholders. However, both resigned from the company in 2018 after amicable settlement within the family and have started their own ventures. There was a family partition deed between the members and per this deed, Saurabh and Aryan had issued an advertisement in the newspaper and filed a letter with SEBI and Stock Exchanges regarding their disassociation with NLL by October 01, 2020. Though succession risk exists, the management has opined that the company is run by professional management, which will continue going forward.

Exposure to regulatory risk

The company is exposed to regulatory risk with its operations centered majorly in manufacturing active pharmaceutical ingredients (APIs) and formulations. The pharmaceutical industry is highly regulated in many other countries and requires approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. Time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Delays or failures in getting approval for new product launch could adversely affect the company's business prospects.

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 industry players. The company does not have a hedging policy in place. However, there is presence of partial natural hedge. The company also imports ~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. The company is a leading player in cephalosporin range of products, which includes oral and sterile cephalosporin; anti-infectives used in antibiotics. In oral cephalosporin, the company's product includes cefixime (for bacterial infection), cefurozime axetil crystalline (for pneumonia), cefuroxime axetil amorphous (for sinusitis), cedpodoxime proxetil (for bronchitis), cefprozil (infections such as skin, ears, throat and others). 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. First-generation molecules have the largest market share but most of them are currently declining. However, second, third and fourth generation cephalosporins are increasingly becoming popular and are growing.

Accredited manufacturing plant approved from regulatory authorities

NLL has four manufacturing plants (from where sales to external parties takes place), some of which, are approved by regulatory authorities such as EUGMP Inframed (Europe), KFDA (South Korea), PMDA (Japan), COFEPRIS (Mexico), MCC (South Africa) and ANVISA (Brazil). Till September 2024, the company filed 44 drug master files (DMF) and have also filed 15 abbreviated new drug application (ANDA). The company has also one plant for making empty hard gelatine capsules (EHGC).

Reputed and globally diversified customer base

The company has reputed and diversified customer base spread across over 50 countries. In FY24, the company derived ~42% of its revenue from export markets (PY:53%). The major contribution from export in FY24 is from the UK (₹195 crore) and Bangladesh (₹62 crore). Top five customers in FY24 contributed ~23% (PY:27%) of the total revenue. Glaxosmithkline Services Unlimited is the largest export customer for the company.

Improved overall performance

The company's overall performance in FY24 improved. TOI improved by 10.50% from ₹1534 crore in FY23 to ₹1695 crore in FY24. Further, the PBILDT margins of the company, at the back improved overall performance and stable raw material cost has improved from 4.16% in FY23 to 9.60% in FY24.The company's performance on Q-o-Q basis is also improving. While the revenue in Q1FY25 de grew by 9% to ₹359 crore against ₹394 crore reported in Q1FY24 (decline was mainly considering the cyber-attack, due to which, revenue of about a week was impacted). However, in terms of operating margin, it improved by 206 bps to 11.08% from 9.02%. CARE Ratings expects that company will maintain operating margins in the range of 9-11% going forward.

Moderate however improving overall financial risk profile

NLL has moderate capital structure as on March 31, 2024. Debt to equity ratio marginally improved and stood at 0.22x against 0.29x as on March 31, 2023. Overall gearing for FY24 stood at 0.64x against 0.82x in FY23. Debt risk metrics (term debt to gross cash accruals (GCA) and total debt (TD) to GCA) improved in FY24 to 2.83x and 8.26x (against 17.67x and 49.93x in FY23) due to improvement in margins and overall reduction in debt due to regular repayment in FY24. Total term loan outstanding has decreased from ₹210.32 crore as on March 31, 2024, to ₹167.42 crore as on September 30, 2024. Interest coverage parameters (PBILDT/interest) improved from 0.71x in FY23 to 1.68x in FY24. While overall financial risk profile is improving, CARE Ratings notes 100% of the promoter's shares are pledged.

Liquidity: Adequate

NLL's liquidity position is adequate. In FY24, the company generated cash flow from operations of ~ ₹220 crore and cash accruals of ~₹79 crore, against term loan repayment of ₹68.30 crore. Going forward, for FY25 and FY26 company is expected to generate cash accruals in the range of ₹100 to ₹120 crore. In FY25, company has total repayment obligation of ~₹83 crore, of which, ₹~42 crore has been repaid till September 2024. Considering the expected cash accruals, CARE Ratings expects that NLL will be able to comfortably meet its debt obligation in FY25.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Consolidation
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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Pharmaceuticals

Founded in 1995 by Sanjiv Goyal, NLL is a research-based pharmaceutical company, primarily engaged in manufacturing APIs and formulation. The company has four state -of-the-art manufacturing facilities across Punjab and Himachal Pradesh. The company is into manufacturing Cephalosporin (oral and sterile) at its two units in Derabassi and Punjab.

Brief consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,534.46	1,695.36	359.30
PBILDT	63.80	162.83	39.81
PAT	-24.19	5.00	2.97
Overall gearing (times)	0.82	0.64	-
Interest coverage (times)	0.71	1.68	1.99

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: The company has outstanding non-cooperation rating with Brickworks Ratings (BWR) at BWR B; Stable INC/BWR A4 INC. As mentioned in its Press Release, dated August 30, 2023, despite best efforts to get the required information for review, the company has not complied. The company has not submitted monthly no default statement as required by regulatory guidelines.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	405.14	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	-	31/03/2027	95.71	CARE BB; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	31/03/2027	31.56	CARE BB; Stable
Fund-based - LT-Working capital Term Loan	-	-	-	31/03/2027	40.15	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 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	95.71	CARE BB; Stable	-	1)CARE BB-; Stable (26-Mar-24) 2)CARE B+; Stable (05-Jul-23)	-	-
2	Fund-based - LT-Working capital Term Loan	LT	40.15	CARE BB; Stable	-	1)CARE BB-; Stable (26-Mar-24) 2)CARE B+; Stable (05-Jul-23)	-	-
3	Fund-based - LT-Cash Credit	LT	405.14	CARE BB; Stable	-	1)CARE BB-; Stable (26-Mar-24) 2)CARE B+; Stable (05-Jul-23)	-	-
4	Non-fund-based - ST-BG/LC	ST	352.44	CARE A4+	-	1)CARE A4 (26-Mar-24) 2)CARE A4 (05-Jul-23)	-	-
5	Fund-based - LT-Working Capital Demand loan	LT	31.56	CARE BB; Stable	-	1)CARE BB-; Stable (26-Mar-24) 2)CARE B+; Stable	-	-

						(05-Jul-23)		
6	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A4+	-	1)CARE A4 (26-Mar-24)	-	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Neclife PT, Unipessoal LDA	Full	Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@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 detailed Rationale Report and subscription information,
please visit www.careedge.in