Innova Captab Limited
(erstwhile Innova Captab Private Limited)

April 02, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	74.00 (enhanced from 69.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	9.00 (reduced from 11.00)	CARE A2 (A Two)	Reaffirmed
Total Facilities	**83.00 (Rs. Eighty three crores only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

While arriving at the rating of Innova Captab Limited (ICL; erstwhile Innova Captab Private Limited), CARE has taken a combined view of ICL and Innova Captab [IC, rated, 'CARE BBB+; Stable/CARE A2')] as the two entities (together referred to as 'Group') are in the same line of business, have operational linkages, have the same promoters and are controlled by a common management team.

The ratings assigned to the bank facilities of ICL, continue to derive strength from the experienced promoters of the Innova group, healthy profitability margins and satisfactory overall solvency position. The ratings further derive strength from the satisfactory liquidity position, approved manufacturing facilities, diversified product profile and established relationships with reputed client base.

The ratings are, however, constrained by the fluctuating scale of group's operations, limited presence in chronic therapeutic segments, susceptibility of profitability margins to raw material price volatility, regulatory policy risk, and highly competitive & fragmented nature of the industry

Going forward, the ability of the group to profitably scale-up its operations while maintaining a comfortable solvency and liquidity positions, will remain the key rating sensitivities. Further, any new capex and funding mix for the same impacting the credit profile will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Experienced promoters: The oldest entity of the Innova group, IC (rated, 'CARE BBB+; Stable/CARE A2'), was incorporated in the year 2005 by Mr. Gian Prakash Agarwal, Mr. Manoj Kumar Lohariwala and Mr. Vinay Kumar Lohariwala. Mr. Gian Prakash Aggarwal has an industry experience of nearly two and a half decades while Mr. Manoj Kumar and Mr. Vinay Kumar have an industry experience of more than one and a half decade each.

Healthy profitability margins: The profitability margins of the group remained healthy though declining slightly from previously year's levels. The PBILDT and PAT margins moderated to 13.80% and 6.21% respectively, in FY18 (refers to the period April 01 to March 31) from 14.13% and 8.40% respectively, in FY17, owing to industry wide pricing pressures during the year coupled with high operational cost incurred at the newly set up general formulations plant at ICL. Stabilization of this unit coupled with higher proportion of sales from better margin giving segments has led to an improvement in the PBILDT margins from 12.49% in 9MFY18 (Prov.) to 13.35% in 9MFY19 (Provisional).

Satisfactory overall liquidity profile: The current and quick ratios of the group stood at a satisfactory level of 1.45x and 1.08x respectively, as on March 31, 2018 (PY: 1.38 and 1.07x, respectively). The operating cycle of the group remained moderate at ~62 days as on March 31, 2018 (PY: ~54 days). For ICL, the average utilization of the working capital limits remained comfortable at ~54% for the twelve month period ended February-2019. The group has a repayment obligation of Rs.5.6 Cr. for FY20 which is proposed to me through the internal accruals of the company (gross cash accruals of Rs.34.83 Cr. in FY18).

Satisfactory capital structure and comfortable debt coverage indicators: Despite addition of term loans to fund capacity expansion at ICL's general formulation block and withdrawal of partner's capital of Rs.4.18 Cr. from IC during FY18, the capital structure of the group remained satisfactory in FY18 and improved from previous year's levels on account of scheduled term loan repayments, repayment of unsecured loans (infused by the promoters), reduced working capital borrowings at the end of the year and accretion of profits to the networth. The interest coverage ratio remained

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

comfortable in FY18 though deteriorating from previous year's levels on account of increased interest expenses. The total debt to GCA ratio remained comfortable at 2.30x, as on March 31, 2018 (PY:2.24x).

Approved manufacturing facilities: The manufacturing plants of both IC and ICL are WHO-GMP (World Health Organisation-Good Manufacturing Practices) certified by the WHO and comply with the GLP (Good Laboratory Practices) norms. The group holds drug manufacturing licenses for the manufacturing of various formulations from the Himachal Pradesh State Drug Controlling and Licensing Authority. The group also holds approvals to sell various products to export destinations in less regulated markets like Ghana, Nigeria etc. The group derived ~5% of the total income from exports in FY18.

Established group relationships with reputed client base and a diversified product profile: The group has been engaged in the contract based manufacturing of pharmaceutical formulations since 2005 which has led to well-established relations with its customers and suppliers. The group is engaged in the contract manufacturing of formulations for both domestic and foreign pharmaceutical companies including several reputed entities. In addition, it derived ~4% of its total income in FY18 from manufacturing of generic formulations for government entities on tender basis. The group also derived ~10% of its sales from another group concern- Univentis Medicare Limited, which further sells under self-owned brands. The group manufactures a wide variety of drug compositions in the form of tablets, capsules, syrups, injectibles etc. The product line finds its application in a wide range of therapeutic segments like anti-allergic, anti-diabetic, analgesic, anti-malarial, anti-biotic formulations, dietary supplements, steroids, anti-inflammatory etc. With ICL's new manufacturing unit operational in March-2017 and enhanced capacities operational since August-2017, the group is also deriving increased proportion of income from non-antibiotic formulations.

Key rating weaknesses

Fluctuating scale of operations: A new manufacturing block for general formulations was set up at ICL, which became operational in April-2017 while additional capacities were also subsequently installed at this unit. These became operational by August-2017. However, the total income of the group had remained flat in FY18 owing to the industry wide slump in demand and price erosion being faced. With the stabilization of the increased capacities, supported by healthy domestic and export demand, a ~45% growth was witnessed in the group's total income in 9MFY19 (Prov.) as compared to 9MFY18 (Prov.).

Limited presence in chronic therapeutic segment: The group derived ~64% of the total income in 9MFY19 (Prov.) from general formulations while the remaining is derived from cephalosporin formulations. The group, therefore, has limited presence in the chronic therapeutic segment.

Susceptibility of profitability margins to raw material prices: With raw material costs forming ~81% of the total income in FY18 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.

Analytical Approach: Combined. The financial and business risk profiles of IC and ICL have been combined as the two entities (together referred to as 'Group') are in the same line of business, have the same promoters and a common management team.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Rating Methodology -Factoring linkages in rating
CARE's methodology for pharmaceutical sector

Company Background
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. ICL also engages in export of formulations to less regulated markets like Nigeria, Kenya, Ethopia, etc. Export income constituted ~5% of the total operating income in FY18. The company is also engaged in procurement of government tenders for manufacturing (on contract basis) for various states governments like Haryana Orissa, Rajasthan, Delhi etc., which allows it to sell its formulations (generic) in government dispensaries, military camps etc. The income from this segment, however, constituted only ~1% of the total operating income in FY18. In addition, sales are also made through another group concern, Univentis Medicare Limited (~8% of the total income in FY18) which further sells under several self-owned brand names in the domestic market. The company has IC and Nugenic Pharma Private Limited as its group concerns which are engaged in the manufacturing of pharmaceutical formulations and the pharmaceutical packaging business, respectively.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	196.18	236.71
PBILDT	26.81	32.02
PAT	15.49	11.51
Overall gearing (times)	17.57	6.35
Interest coverage (times)	1.43	1.21

A: Audited

Status of non-cooperation with previous CRA: On account of non-cooperation by ICL with ICRA's efforts to undertake a review, ICL's ratings with ICRA have been suspended vide press release dated April 05, 2016.

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July-2024	29.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE BBB+; Stable
Fund-based - ST-Working Capital Limits	-	-	-	5.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	4.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	29.00	CARE BBB+; Stable	1)CARE BBB+; Stable (05-Apr-18)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB+; Stable	1)CARE BBB+; Stable (05-Apr-18)	-	-	-
3.	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A2	1)CARE A2 (05-Apr-18)	-	-	-
4.	Non-fund-based - ST-BG/LC	ST	4.00	CARE A2	1)CARE A2 (05-Apr-18)	-	-	-

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