

Innova Captab

April 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	10.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities	5.00	CARE A2 (A Two)	Assigned
Total Facilities	15.00 (Rs. Fifteen crores only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Innova Captab (IC) derive strength from the experienced promoters of the Innova group, healthy profitability margins, satisfactory capital structure and comfortable debt coverage indicators. The ratings further derive strength from the moderate operating cycle, 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 improving its overall solvency position, will remain the key rating sensitivities. Further, any new capex and funding mix for the same will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: The oldest entity of the Innova group, IC, 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 PBILDT and PAT margins of the group remained healthy at 14.13% and 8.41% respectively, in FY17. Further, the PBILDT margins improved from 11.87% in 9MFY17 (Prov.) to 12.49% in 9MFY18 (Prov.) on account increased proportion of sales being derived from the higher margin yielding non-antibiotics segment [post commencement of manufacturing of general medicines in ICPL (Innova Captab Private limited; rated, 'CARE BBB+;Stable/CARE A2')] and better realisations.

Moderate operating cycle: The operating cycle of the group remained moderate at ~54 days as on March 31, 2017. The average utilization of the cash credit limit by IC remained comfortable at ~51% for the twelve month period ended February-2018.

Satisfactory capital structure: The capital structure of the group remained satisfactory as on March 31, 2017. An additional manufacturing unit for general formulations was set up in ICPL in the FY16-17 period with commercial operations beginning in March-2017. The total project cost of ~Rs.80 Cr. was funded through term loans of Rs.40 Cr., unsecured loans of Rs.7.97 Cr. and remaining through the internal accruals generated. In spite of additional term loans availed for the project, the capital structure continued to remain at a satisfactory level.

Comfortable debt coverage indicators: The debt coverage indicators remained comfortable with interest coverage ratio of 25.17x in FY17 and the total debt to GCA at 2.24x as on March 31, 2017. The interest coverage ratio further remained comfortable 8.74x in 9MFY18 (Prov.) though deteriorating from 21.35x in 9MFY17 (Prov.) on account of increased interest expenses incurred.

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

Approved manufacturing facilities: The manufacturing plants of both IC and ICPL 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 ~4% of the total income from exports in FY17.

Established group relationships with reputed client base: 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. The group also derived ~5% of its total income in FY17 from manufacturing of generic formulations for government entities on tender basis.

Diversified product profile: 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 ICPL's new manufacturing unit operational in March-2017, the group is also deriving increased proportion of income from non-antibiotic formulations. IC operates at an installed capacity of 1500 million/annum for tablets, 300million/annum for capsules and 30 million/annum ointments as on February 28, 2018 while ICPL operates at an installed capacity of 2500 million/annum for tablets, 1500 million/annum for capsules, 0.3 million bottles/annum for liquids, 130 million/annum for dry syrups and 50 million/annum for dry injectibles as on February 28, 2018.

Key rating weaknesses

Fluctuating scale of operations: The total operating income of the group grew by ~25% in FY17, on the back of increase in domestic demand. However, in 9MFY18 (Prov.), the group achieved a total income of Rs.262.43 Cr. which declined by ~9% from the corresponding period last year. This was mainly due to the slump in demand witnessed during the implementation of the GST (Goods and Service Tax) regime in July-2017.

Limited presence in chronic therapeutic segment: The group derived ~45% of the total income in 9MFY18 (Prov.) from cephalosporin drugs and remaining from various other segments. The group, therefore, has limited presence in the chronic therapeutic segment.

Susceptibility of profitability margins to raw material prices: With raw material costs forming ~80% of the total income in FY17 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: 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.

Regulatory risk: 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 ICPL have been combined as the two companies (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

Firm Background

Incorporated in 2005, IC is engaged in the manufacturing of pharmaceutical formulations. The formulations are manufactured on contract basis for both domestic and foreign pharmaceutical companies. IC also engages in export of formulations to less regulated markets like Nigeria, Kenya, Ethiopia etc. Export income constituted ~6% of the total operating income in FY17. The firm 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 constituted ~10% of the total operating income in FY17. The firm has ICPL 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)	FY16 (A)	FY17 (A)
Total operating income	293.34	368.38
PBILDT	41.34	51.77
PAT	24.65	30.81
Overall gearing (times)	0.54	1.06
Interest coverage (times)	14.24	25.17

A: Audited

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the best available information and termed IC as “Not cooperating” vide press release dated July 18, 2017.

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

Any other information: Not Applicable

Rating History (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.

Analyst Contact

Name: Mr Sudeep Sanwal
 Tel: 0172-4904002
 Cell: +91 9958043187
 Email: sudeep.sanwal@careratings.com

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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-Cash Credit	-	-	-	10.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	5.00	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-Cash Credit	LT	10.00	CARE BBB+; Stable	-	-	-	-
2.	Non-fund-based - ST-BG/LC	ST	5.00	CARE A2	-	-	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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