Innova Captab

April 06, 2020

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale

While arriving at the rating of Innova Captab (IC), CARE has taken a combined view of IC and Innova Captab Limited [ICL, 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 IC, continue to derive strength from the experienced promoters of the Innova group, healthy profitability margins and comfortable overall solvency position. The ratings further derive strength from the approved manufacturing facilities, diversified product profile and established relationships with reputed client base.

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

Rating sensitivities

Positive factors

- Sustainable growth in the operating income with PBILDT margins improving significantly beyond the historical ~13-14% levels
- Improvement in overall solvency position viz. overall gearing ratio of ~0.4x

Negative factors

- Any major deterioration in the operating performance in light of Covid-19
- Deterioration in the solvency position with overall gearing ratio increasing beyond 1x owing to debt funded capex, increased working capital reliance or capital withdrawal, etc.
- Any significant down trend in scale of operations with PBILDT margins falling consistently below ~10-11%

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 (also the current partners in IC and directors in ICL) 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 have remained healthy with the PBILDT and PAT margins at 12.46% and 10.12% respectively, in FY19 (refers to the period April 01 to March 31). The former, however, declined from 13.96% in FY18 owing to increased employee expenses pertaining to the additional sales force as well and research and development team employed. The PAT margins, however, improved from 6.29% in FY18 to 6.47% in FY19 owing to lower depreciation costs. The group, in 11MFY20 (Provisional), reported healthy PBILDT margins of 14.04%.

Comfortable overall solvency position: Despite withdrawal of partner's capital of Rs.9.75 Cr. from IC during FY19, the long-term debt to equity and overall gearing ratios remained comfortable and improved to 0.38x and 0.67x respectively, as on March 31, 2019 from 0.54x and 0.83x respectively, as on March 31, 2018 on account of scheduled term loan repayments, repayment of unsecured loans (from promoters) and accretion of profits to the networth. The debt coverage indicators remained comfortable with interest coverage ratio of at 9.97x in FY19 improving from 9.16x in FY18 on account of increased

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

PBILDT in absolute value terms. The total debt to GCA remained comfortable at 1.87x as on March 31, 2019 improving from 2.30x as on March 31, 2018 on account of higher cash accrual generation and lower debt outstanding.

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, Afghanistan, etc. The group derived ~6% of the total income from exports in FY19.

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 ~9% of its total income in FY19 from manufacturing of generic formulations for government entities on tender basis. The group also derived ~11% of its sales in FY19 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

Modest; albeit, increasing scale of operations: The scale of operations of the group remained modest at Rs.478.11 Cr. in FY19. The same however, grew by ~32% from FY18. 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. In absence of this and supported by better demand, the total operating income of the group grew in FY19. In 11MFY20 (Provisional) the group reported a total income of around Rs.480 Cr.
Limited presence in chronic therapeutic segment: The group derived around 60-65% of the total income in FY19 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 ~79% of the total income in FY19 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.

Adequate Liquidity
The group had satisfactory current and quick ratios of 1.53x and 1.19x respectively, as on March 31, 2019 as compared to 1.45x and 1.08x respectively as on March 31, 2018. The group had a repayment obligation of Rs.5.60 Cr. in FY20 which is to be met through the sufficient cash accrual generation projected. Further, there are no major capex plans going forwards. The combined average utilization of the working capital limits remained comfortable at ~49% for the last twelve month period ended February-2020. The average operating cycle of the group also remained moderate and almost at previous year's levels at ~60 days, as on March 31, 2019. The group is engaged in the essential product segment viz. pharmaceutical manufacturing. However, any major disruption in its performance with respect to demand, logistics, supply chain etc. in light of the Covid-19 outbreak will remain a key rating sensitivity.

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 as well as operational linkages.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's methodology for Short Term Instruments
Rating Methodology-Pharmaceutical sector
Rating Methodology -Consolidation and Factoring linkages in ratings

About the company (IC)
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, Ethopia etc. Export income constituted ~4% of the total operating income in FY18. 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 ~31% of the total operating income in FY19. In addition, sales are also made through another group concern, Univentis Medicare Limited (~14% of the total income in FY19) which further sells under several self-owned brand names in the domestic market. The firm has ICL and Nugenic Pharma Private Limited as its group concerns which are engaged in the manufacturing of pharmaceutical formulations and pharmaceutical packaging business respectively.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (in Rs. crore) IC	FY18 (A)	FY19 (A)
Total operating income	135.42	137.50
PBILDT	18.68	19.48
PAT	11.32	11.74
Overall gearing (times)	0.13	0.20
Interest coverage (times)	37.66	34.24

A: Audited

Status of non-cooperation with previous CRA: 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 for last three years: Please refer Annexure-2

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
Fund-based/Non-fund-based-Short Term	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+;	1)CARE BBB+; Stable	1)CARE BBB+; Stable	-	-

				Stable	(02-Apr-19)	(05-Apr-18)		
2.	Fund-based/Non-fund-based-Short Term	ST	5.00	CARE A2	1)CARE A2 (02-Apr-19)	1)CARE A2 (05-Apr-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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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