

Sakar Healthcare Limited

FEBRUARY 08, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	15.54	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	3.50	CARE A3 (A Three)	Reaffirmed
Total	19.04 (Rupees Nineteen crore and Four lakh only)		

Details of instruments/facilities in Annexure -1

Detailed rationale

The ratings assigned to the bank facilities of Sakar Healthcare Limited (SHL) continue to derive strength from increasing scale of operations, comfortable capital structure and moderate debt coverage indicators during FY16 (refers to the period April 1 to March 31) along with experience of the promoters in the pharmaceutical industry and established track record of operations. The ratings, however, continue to remain constrained on account of delay in the proposed Initial Public Offering (IPO), moderate liquidity position, moderate profitability, its presence in the highly fragmented and competitive industry coupled with susceptibility of profit margins to the volatility in raw material prices and foreign exchange fluctuations.

The ability of SHL to increase its scale of operations, improve profitability amidst competition in the pharmaceutical industry and efficient management of operating cycle are the key rating sensitivities.

Detailed description of key rating drivers

SHPL earned total operating income (TOI) of Rs.41.43 crore, with an increase of 18.20% as against Rs.35.05 crore during FY15 on account of increase in volume of products sold coupled with increase in direct sales as compared to contract sales in FY16.

The PBILDT margin of the company has marginally dipped by 194 bps during FY16 but remained moderately comfortable at 20.64% as compared with 22.58% during FY15. The dip was on account of increase in procurement cost coupled with marginal increase in the selling & other manufacturing expenses. However, the PAT margin improved marginally and remained in line during FY16 as compared with previous year at 5.35%. Further, the gross cash accruals of the company dipped by 17.78% during FY16 and remained moderate at Rs.5.04 crore as compared to Rs.6.13 crore during FY15.

SHL's capital structure improved and remained comfortable marked by an overall gearing of 0.56 times as on March 31, 2016, as compared with 0.77 times as on March 31, 2015. The improvement was on account of healthy accretion to reserves couple with repayment of debt and lower utilization of working capital borrowings as on balance sheet date. Debt coverage indicators also improved and remained comfortable marked by total debt to GCA of 2.93 years as against 3.12 years in FY15 and interest coverage of 2.91 times as against 2.65 times in FY15 on account comfortable gearing and GCA during FY16.

The current ratio of the company has marginally deteriorated and remained modest at 1.11 times as on March 31, 2016, as against 1.34 times as on March 31, 2015. The operating cycle of SHL also stood in same line at 87 days in FY16 as against 86 days in FY15. The gross current asset days of SHL improved and remained moderate at 96 days in FY16 as against 113 days in FY15 mainly on account of reduction in inventory days during FY16, which was primarily funded through working capital borrowings. The cash flow from operations of the company improved and stood at Rs.8.37 crore during FY16 from Rs.4.47 crore during FY15 on account of reduction in outstanding inventory and increase in outstanding creditors as on balance sheet date. The average utilization of working capital limits remained high at 69% during last 12 months ended December 2016.

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

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology-Pharmaceutical Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Gujarat-based ISO 9001:2008 certified Sakar Healthcare Limited (SHL) was incorporated as a private limited company in March 2004 by its key promoters Mr Sanjay Surendra Shah and Mrs Rita Sanjay Shah to undertake manufacturing of complete range of pharmaceutical products such as oral liquids, cephalosporin, liquid injections, dry powder injections and lyophilized injections for all type of disease and therapies at its factory located at Changodar in Ahmedabad (Gujarat) which is spread over 15,000 sq. meters of area having latest state of art manufacturing facilities. The manufacturing facilities of SHPL are certified by WHO-GMP, cGMP, in addition to the approvals by National Drug Authority of Uganda, Kenya, Yemen, Ethiopia, Congo, Ghana, MCAZ (Zimbabwe), Namibia, Nigeria & Cote D'Ivoire. SHL also operates as a contract manufacturer for leading national and multinational pharmaceutical companies such as Zydus Healthcare Limited, Torrent Pharmaceuticals Ltd, Intas Pharmaceuticals Ltd, Cadila Pharmaceutical (rated 'CARE A/CARE A1, Stable'), Abbott India Ltd, German Remedies, Troikaa Pharmaceuticals, Cipla Limited (rated 'CARE AAA/ CARE A1+'), Claris Lifesciences Ltd, etc. SHL has its presence in domestic as well as international market of Latin America and African Countries.

SHL raised Rs.15 crore [3,306,000 Equity Shares of face value of Rs.10 each fully paid up of the Company for cash at a price of Rs.45.00 per Equity Share aggregating Rs.14.88 crore] through Small & Medium Enterprise (SME) IPO (Initial Public Offering) in September 2016 for diversification of its Changodar plant, Ahmedabad which got delayed by six months.

As per the Audited results for FY16, SHL reported profit after tax (PAT) of Rs.2.22 crore on a total operating income (TOI) of Rs.41.43 crore as against Rs.1.87 crore on a TOI of Rs.35.05 crore during FY15 (A).

Status of non-cooperation with previous CRA: Not Applicable

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.

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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	January 31, 2019	2.56	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	2.50	CARE A3
Fund-based - LT-Term Loan	-	-	January 31, 2017	5.98	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A3

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	2.56	CARE BBB-; Stable	-	1)CARE BBB- (04-Feb-16) 2)CARE BBB- (06-Apr-15)	1)CARE BBB- (20-Mar-15)	-
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB-; Stable	-	1)CARE BBB- (04-Feb-16) 2)CARE BBB- (06-Apr-15)	1)CARE BBB- (20-Mar-15)	-
3.	Non-fund-based - ST-Letter of credit	ST	2.50	CARE A3	-	1)CARE A3 (04-Feb-16) 2)CARE A3 (06-Apr-15)	1)CARE A3 (20-Mar-15)	-
4.	Fund-based - LT-Term Loan	LT	5.98	CARE BBB-; Stable	-	1)CARE BBB- (04-Feb-16) 2)CARE BBB- (06-Apr-15)	-	-
5.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3	-	1)CARE A3 (04-Feb-16) 2)CARE A3 (06-Apr-15)	-	-

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