

## Sakar Healthcare Limited

November 05, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	12.31 (reduced from 15.12)	<b>CARE BBB; Stable (Triple B; Outlook: Stable )</b>	Reaffirmed
Short-term Bank Facilities	3.50	<b>CARE A3+ (A Three Plus)</b>	Reaffirmed
<b>Total</b>	15.81 <b>(Rupees Fifteen Crore and Eighty One Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

*The revision in ratings assigned to the bank facilities of Sakar Healthcare Limited (SHL) is on account of growing scale of operations, healthy profit margins, comfortable capital structure and debt coverage indicators in FY18 (refers to the period from April 01 to March 31). The ratings continue to derive strength from experience of the promoters in the pharmaceutical industry, established track record of operations along with presence of reputed clientele in its portfolio.*

*The ratings, however, continue to remain constrained on account of its presence in highly fragmented and competitive industry coupled with susceptibility of profit margins to the volatility in raw material prices and foreign exchange fluctuations. The ratings also take into consideration moderate liquidity position of SHL.*

*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. Further, maintaining favourable solvency position and debt protection metrics will also remain crucial.*

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Growing scale of operations and healthy profit margins

During FY18, TOI of SHL improved by 19.63% to Rs.53.61 crore as against Rs.44.81 crore on the back of increase in sales volume of its products coupled with increase in direct sales as compared to contract sales in previous year. During FY18, profit margins have also improved and stood healthy marked by PBILDT margin of 24.48% as compared to 24.11% during FY17. PAT margin stood comfortable at 7.12% during FY18 as against 7.54% in FY17.

##### Improved capital structure and debt coverage indicators

As on March 31, 2018, solvency position of SHL improved and remained comfortable, marked by an overall gearing ratio of 0.30 times as against 0.39 times as on March 31, 2017 on account of increase in net worth pertaining to infusion of capital coupled with reduction total debt pertaining to scheduled repayment of term loans as well as lower working capital utilization as on balance sheet date. Further, on back of healthy growth in operating profitability and cash accruals, the debt coverage indicators also stood comfortable marked by an interest coverage ratio of 5.08x during FY18 as against 4.02 times during FY17 while TDGCA also improved to 1.65 times as on March 31, 2018 as against 2.27 times as on March 31, 2017.

##### Qualified promoters having vast experience in the pharmaceutical industry

Mr. Sanjay Shah managing director of the company hold experience of more than three decades in the pharmaceutical industry. Overall, the management is supported by well-qualified and technically sound personnel.

##### Reputed clientele

SHL's customer base include well know players from pharmaceutical industry and SHL has developed strong relationship with these customers over the period. SHL's top five customer contributed 27% of TOI during FY18 as against 26% of TOI during FY17.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### Key Rating Weakness

#### Improved liquidity position but continued to remain moderate

The liquidity position continues to remain moderate in FY18 marked by moderate operating cycle of 70 days. However, working capital utilization stood at 41% for trailing 12 month period ended September 2018.

#### Risk related to foreign exchange rate fluctuation

SHL manufactures its product from raw material supplied domestically however it is engaged into export majorly. Moreover, SHL does not have any prudent foreign exchange hedging policy in place which makes its profitability vulnerable to fluctuation in foreign exchange rates.

#### Presence into highly fragmented and regulated industry

Indian Pharmaceutical Industry (IPI) is highly fragmented having presence of organized as well as unorganized players into similar line of operations. Key factors that are expected to drive the growth of IPI in the medium term are increasing penetration of generic drugs in regulated markets on the back of significant patent expiries, outsourcing by global pharmaceutical companies to India and steady growth in the domestic market.

#### Susceptibility of margins to volatile raw material prices

SHL's profit margins remain susceptible to fluctuation in prices of key raw materials in case of its inability to pass on the same to end customers.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

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

[Rating Methodology-Pharmaceutical Companies](#)

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

#### About the company

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 ISO 9001:2008 certified factory located at Changodar in Ahmedabad (Gujarat). The manufacturing facilities of SHL are also 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. SHL has its presence in domestic as well as international market of Latin America and African Countries.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	44.81	53.61
PBILDT	10.81	13.12
PAT	3.38	3.81
Overall gearing (times)	0.39	0.30
Interest coverage (times)	4.02	5.08

A: Audited

During 6MFY19 (Provisional), SHL has achieved a Total Operating Income of Rs.28.50 crore.

**Status of non-cooperation with previous CRA: Not Applicable**

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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	-	-	January 2020	1.08	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	-	-	April 2023	4.23	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 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	1.08	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Feb-18)	1)CARE BBB; Stable (08-Feb-17)	1)CARE BBB- (04-Feb-16) 2)CARE BBB- (06-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Feb-18)	1)CARE BBB; Stable (08-Feb-17)	1)CARE BBB- (04-Feb-16) 2)CARE BBB- (06-Apr-15)
3.	Non-fund-based - ST-Letter of credit	ST	2.50	CARE A3+	-	1)CARE A3+ (01-Feb-18)	1)CARE A3 (08-Feb-17)	1)CARE A3 (04-Feb-16) 2)CARE A3 (06-Apr-15)
4.	Fund-based - LT-Term Loan	LT	4.23	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Feb-18)	1)CARE BBB; Stable (08-Feb-17)	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+ (01-Feb-18)	1)CARE A3 (08-Feb-17)	1)CARE A3 (04-Feb-16) 2)CARE A3 (06-Apr-15)

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