March 10, 2023

Sakar Healthcare Limited: Ratings reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	8.00	20.50	[ICRA]BBB (Stable); reaffirmed and assigned for enhanced amount
Long-term – Fund-based – Term Loans	73.50	97.26	[ICRA]BBB (Stable); reaffirmed and assigned for enhanced amount
Long-term/ Short-term – Unallocated Limits	0.50	0.24	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	**82.00**	**118.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings continue to take into account the proven track record of Sakar Healthcare Limited (SHL) of nearly two decades in the pharmaceutical formulations industry and its healthy financial risk profile characterised by comfortable capital structure and debt coverage indicators. Moreover, prudent working capital management and buffer in working capital limits have also supported the liquidity profile. Furthermore, the ratings derive comfort from the company's diversified product profile and geographical presence, along with the diversification in the oncology segment where the commercial operations of oncology formulation and API unit started from October 2021 and July 2022, respectively.

The ratings, however, remain constrained by the moderate scale of operations amid intense competition in the generic formulations industry and vulnerability of profitability to fluctuations in raw material as well as forex changes. ICRA notes that the company has recently completed a large debt-funded capex towards the Oncology segment (Active Pharmaceuticals Ingredient- API and formulations). Further, the commercial operations for its oncology Injectable unit is delayed by six months to May–June 2023. SHL's ability to successfully scale-up the new oncology unit for its already commercialised API and formulation unit and its upcoming injectable unit remains critical from the credit perspective, given its moderate scale of operations at present. The debt level is expected to peak by FY2023 end, and reduce thereafter from FY2024 after repayment, hence generation of commensurate returns from the capex is also key for improvement in debt metrics from FY2024. The rating also remains constrained by the exposure to regulatory restrictions in terms of product launches/ facility approvals/ socio-political risks in export destinations.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SHL will continue to benefit from the extensive experience of its key promoter in the pharmaceutical formulations industry and its diversified product and customer base.

Key rating drivers and their description

Credit strengths

Established track record of nearly two decades in the pharmaceuticals formulation industry – The company has an established operation of nearly two decades in manufacturing pharmaceutical formulations. SHL manufactures generic formulations in 23 therapeutic categories, such as antibiotics, antihistamine, antifungal, cough preparation, and vitamins, among others.

Vast experience of promoters and established relationships with customers and suppliers – The promoters have an extensive experience in the pharmaceutical industry. Mr. Sanjay S. Shah, SHL's Chairman and Managing Director, has an extensive experience of three decades in the pharmaceutical, mineral water and plastic industries. Over the years, the company has developed strong relationships with its customers in domestic and export markets as reflected by repeat orders from reputed players in the industry. Ltd. Also, SHL has signed an agreement with Zydus Life Sciences in October 2022 and with Ferring Pharmaceuticals in February 2023 to manufacture oncology products.

Diversified product portfolio and geographic presence – The company's product profile is diversified, comprising liquid injectables, tablets/ capsules, oral liquid syrups, dry powder injections and syrups. SHL's product portfolio includes approximately 300 product registrations for various therapeutic segments, such as antibiotics, anti-cold drugs, anti-malarial, and multi-vitamins, among others. Moreover, it has a diversified geographical presence in the domestic market and exports primarily to semi-regulated markets of various African and South East Asian countries, including the Philippines. The company is increasing its focus on export markets, owing to the intense competition in the domestic generic formulations industry. Export sales increased to ~Rs. 94 crore in FY2022 from ~Rs. 69 crore in FY2021. Further, the company has received European Union Good Manufacturing Practice (EU-GMP) certification for its existing liquid and lyophilised injectables units in accordance with the European Medicines Agency (EMA) standards and started exports to European countries in FY2021. Also, the company has started manufacturing oncology drugs including formulations and APIs, while the capex to set up a plant for oncology injectables is in process and, hence, the oncology segment is expected to further strengthen the company's product portfolio once it successfully scales up this business and it reaches an optimum scale and magnitude.

Healthy financial risk profile characterised by satisfactory return indicators, comfortable capital structure and debt coverage indicators – The company's capital structure remained comfortable over the past years albeit moderated marginally in FY2021 and further moderating in FY2022 marked by gearing of 0.73 time as on March 31, 2022 against 0.43x as on March 31, 2021. The total debt increased to Rs. 92.86 crore as on March 31, 2022 from Rs. 42.60 crore as on March 31, 2021 on account of addition of new term loans during the year to fund the capex for the oncology unit. The net worth of the company stood at Rs. 127.46 crore as on March 31, 2022 (PY: Rs.98.46 crore). The company raised an equity of Rs. 62.13 crore over FY2017-FY2022 through an IPO and preferential allotment to promoter/ non-promoter group, mainly for funding its capex requirements. Further, the infusion would be of Rs. 34.55 crore in FY2023 through preferential allotment to promoter/ non-promoter group. The RoCE remains satisfactory and improved over the years driven by healthy profitability levels, standing at 15.11% in FY2022.

Credit challenges

Ability to successfully scale up its oncology unit remains critical for improvement in debt metrics, going forward – SHL undertook a debt-funded capital expenditure for setting up a new plant to manufacture oncology drugs. The formulation unit achieved commercial operations in October 2021 and the API unit commenced operations from July 2022 whereas the injectable unit is expected to commence from May–June 2023 (delayed from December 2022). The ability to successfully scale up its oncology unit remains critical from credit perspective, given its debt-funded nature, wherein the debt levels are expected to peak by FY2023 end. Hence, commensurate returns from FY2024 remains key for improvement in debt metrics, with commercial operations for injectable unit expected by June 2023. The company also is in process of seeking approvals for its oncology products in key export markets to expand its geographic presence, hence, the ability to timely receive the same to expand its customer profile remains critical for improvement in scale.

Moderate scale of operations – The company's revenue grew at a healthy CAGR of ~23% over FY2017-FY2022; however, it remains a moderate sized player in the intensely competitive generic formulations industry, with a revenue base of Rs. 128.23 crore as of FY2022. The company reported ~35% YoY growth in its revenue in FY2022 and a revenue of Rs. 92.7 crore in 9M FY2023, which remained largely similar to Rs. 91.6 crore in 9M FY2022. The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, with some players also having a pan India presence. The intense competition also restricts the company's revenue growth and pricing flexibility; however, its presence in the export market mitigates these constraints to some extent.

Profitability remains susceptible to fluctuations in raw material prices and risk associated with forex fluctuations – The company's major raw materials include APIs, such as Paracetamol, Artemether and Diclofenac; and procures it from domestic suppliers all over the country. SHL's profitability, hence, remains susceptible to such raw material price fluctuations and its ability to fully pass on such costs remain critical to protect margins. The operating profit margin improved during 9M FY2023 over full year FY2022 and stood at 27.78% against 23.4% in FY2022 on account of the higher sales of high margin products. Further, the company is exposed to foreign exchange rate fluctuations as the receivables are in foreign currency while most of SHL's expenses are in INR. The company does not have any formal hedging policy in place; however, as most of the exports are against advance payment/ sight LC, the foreign currency fluctuation risk is mitigated to a large extent.

Inherent regulatory risk associated with pharmaceutical industry like Government controlled pricing policies and presence in competitive generic formulation industry – The company's operations remain exposed to regulatory restrictions in terms of product/ facility approvals/ socio-political environment of export destinations. With increasing focus on exports, ICRA notes that timely product and facility approval/ renewal in various semi-regulated markets, along with a stable socio-political environment, remains critical for its revenue growth.

Environmental and Social Risks

Environmental considerations: The company could face tightening of environmental regulations with regard to breach of waste and pollution norms, which can lead to an increase in operating costs. The company monitors the protection of environment regularly and conscious of the importance of environmentally clean and safe operations. It ensures compliance with environmental regulations, preservation of natural resources.

Social considerations: The company undertakes employees development initiatives to improve morale and team spirit of the employees. The company focuses on human resources/ industrial relations development and industrial relations remained cordial throughout the year. The company is also trying to create adequate support systems at its head office to provide requisite knowledge and data to its sales team. These activities are expected to lead a motivated sales force for the company.

Liquidity position: Adequate

SHL's liquidity position remains adequate, as evident from the adequate cash accruals against the scheduled term loan repayments. The liquidity is further supported by an undrawn line of credit of Rs. 3.23 crore from State Bank of India (SBI) and Rs. 6.5 crore from the Shamrao Vithal Co-operative Bank Ltd. (SVC Bank) as on January 31, 2023. The average utilisation of SBI's working capital limit remained ~45% during the last 12 months ended January 2023, while the limits from SVC Bank were unutilised till January 2023. The company's debt repayments and working capital requirements are expected to increase, going forward, due to operations of oncology unit and subsequent scale up of operations. The company has also proposed enhancement in working capital limit for the same. The annual cash accruals are expected to easily cover the annual debt repayments of ~Rs. 5-9 crore over FY2023-FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade SHL's ratings if there is a significant improvement in the operating income of the company on the back of scale-up of the new plant, while maintaining healthy profitability and debt coverage indicators.

Negative factors – Downward pressure on SHL's rating could arise if there is any decline in operating income or material decline in operating margin, or lower than expected returns from the ongoing capex, which in turn impacts the coverage indicators or liquidity profile adversely. Specific credit metrics, which can lead to negative rating trigger will be DSCR below 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Entities in the Pharmaceutical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of SHL along with its wholly-owned subsidiary, Sakar Oncology Private Limited.

About the company

Incorporated in 2004, Sakar Healthcare Limited manufactures pharmaceutical formulations in the form of liquid injectables, tablets/ capsules, oral liquid syrups, dry powder injections and syrups. The company manufactures generic formulations in 23 therapeutic categories, such as antibiotics, cough preparations, vitamins and mineral supplements, among others. Also, the company entered into the oncology drugs segment with an oncology formulation and APIs unit in October 2021 and July 2022, respectively. The company is listed on the National Stock Exchange (NSE), India. SHL is involved in contract manufacturing for leading brands in the domestic market as well direct sales on principal-to-principal basis in the domestic and export markets. SHL's manufacturing facility is at Changodar, near Ahmedabad, Gujarat. The unit is ISO 9001:2008 and WHO-GMP certified. The company has also received EU-GMP certification in accordance with EMA standards, as well as INVIMA-Colombia and Health Canada approvals. In addition, SHL has certifications from the national drug authorities of the countries it exports to, such as the Philippines, Uganda, Ivory Coast, Kenya, Zimbabwe, Cambodia and Peru, among others. The company currently holds over 300 marketing authorisations (registrations) in these countries. The key promoter, Mr. Sanjay S. Shah, who is actively involved in SHL's daily operations, has extensive experience of nearly three decades in the pharmaceutical industry. Sakar Oncology Private Limited (SOPL) was incorporated in June 2020 and it is a wholly-owned subsidiary of SHL. It was promoted to transfer the oncology operations under it, however, the same has not been yet done and remains non-operational till date.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	H1FY2023
Operating income	95.30	129.12	59.24
PAT	10.68	15.18	4.82
OPBDIT/OI	24.31%	23.40%	27.96%
PAT/OI	11.21%	11.76%	5.68%
Total outside liabilities/Tangible net worth (times)	0.81	1.10	NA
Total debt/OPBDIT (times)	1.84	3.07	3.16
Interest coverage (times)	9.33	10.43	8.95

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 10, 2023	Jan 31, 2022	Nov 02, 2020	Feb 05, 2020
1	**Cash Credit**	Long term	20.50	--	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	**Term Loan**	Long term	97.26	97.26	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
3	**Unallocated limits**	Long term/Short term	0.24	--	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**

Note: %; Rating watch with positive implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	20.50	[ICRA]BBB (Stable)
NA	**Term Loan**	FY2020-21	NA	March 2030	97.26	[ICRA]BBB (Stable)
NA	**Unallocated Limits**	NA	NA	NA	0.24	[ICRA]BBB (Stable)/[ICRA]A3+

Source: Company

Please Click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis –

Company Name	Ownership	Consolidation Approach
Sakar Oncology Private Limited	100.00%	Full Consolidation

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Ruchi Shah
+91 79 4027 1524
ruchi.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches