

Press Release

S Kant Healthcare Limited

March 02, 2017

Rating Assigned

Total Instruments Rated*	Rs. 28.50 Cr
Short Term Rating	SMERA A2

**Refer Annexure for details*

Rating Rationale

SMERA has assigned short term rating of '**SMERA A2**' (read as **SMERA A two**) on the Rs. 28.50 crore bank facilities of S Kant Healthcare Limited.

SKHL, incorporated in 1996, is engaged in the manufacturing of anti-malarial drugs and active pharmaceutical ingredients (API) while SKAE, established in 1990 trades and exports formulations and active pharmaceutical ingredients (API). The companies are part of the SK Group established in 1932.

Key Rating Drivers

Strengths

- **Long track record and experienced management**

The promoters, Mr. Bharat Shah, Mr. Samir Shah and Mr. Lalit Shah are third generation entrepreneurs and have over two decades of experience in the pharma sector.

- **Healthy profitability**

The profit margins of the group are marked by healthy operating margin of 26.86 percent in FY2016 as against 25.03 percent in FY2015. The PAT margin improved to 12.80 percent in FY2016 from 11.38 percent in FY2015. The RoCE stood at 46.66 percent in FY2016.

- **Above average financial risk profile**

The group has strong financial risk profile marked by healthy net worth and low gearing. The net worth stood at Rs. 51.56 cr as on March 31, 2016 as compared to Rs.44.21 cr as on March 31, 2015. The gearing (debt-to-equity) stood at 0.52 times as on March 31, 2016 as compared to 0.65 times as on March 31, 2015. The total debt mainly consists of working capital borrowings and unsecured loans from promoters.

- **Healthy liquidity position**

The S K group has healthy liquidity position with NCA/TD of 0.90 times in FY2016 as compared to 0.80 times in FY2015. The group has no long term debt obligation and there are no plans for any debt funded capex. The unencumbered cash and bank balance stood at Rs. 13.15 cr as on March 31 2016.

- **Comfortable working capital cycle**

The S K group has comfortable working capital cycle at 57 days in FY2016 as compared to 36 days in FY2015. However, the gross current assets are high at 204 days due to high debtors of ~ 102 days in FY2016. However, the cash credit limit utilisation is low at ~40 per cent in the last six months.

Weaknesses

- **Decline in revenues amidst tender based business**

S K Group's revenues declined to Rs.148.36 cr in FY2016 as compared to Rs. 156.60 cr in FY2015 and Rs.160.86 cr in FY2014 on account of lower demand in the end user segment. However, for 10MFY17 SKHL and SKAE achieved net sales of Rs. 106.77 cr and Rs. 64.88 cr respectively.

- **Regulatory risk in the domestic and export market**

The group mainly supplies to Zambia, Sri Lanka, Ghana etc and is exposed to regulatory risks in these countries.

- **Susceptibility of profitability to volatility in raw material prices and forex rates**

The group's profitability is susceptible to volatility in raw material prices and forex rates. The group exports over 90 percent of its output to Denmark, Ghana, Uganda, Singapore etc. However, while it hedges part of its forex exposure, it is exposed to currency fluctuations for the unhedged part.

Analytical Approach

SMERA has taken a consolidated view of S Kant Health Care Private Limited (SKHL) and S K Age Export (SKAE) referred to as the S K Group. This is due to the strong operational and financial linkages between the two entities and common management.

Outlook:

Not Applicable

About the Group

Established in 1996 by Mr. Bharat Shah and Mr. Samir Shah, SKHL is a closely held public limited company and is a part of the SK Group which was established in 1932. The group specialises in the business of pharmaceuticals. SKHL manufactures antimalarial drugs and active pharmaceutical ingredients (API) at Vapi, Gujarat. SKAE was established in 1990 by Mr. Bharat Shah and Mr. Samir Shah. The trading firm exports formulations and active pharmaceutical ingredients (API). The registered office is located at Worli, Mumbai.

About the Rated Entity - Key Financials

For FY2015-16, the SK group reported net profit after tax (NPAT) of Rs. 19.00 cr on operating income of Rs. 148.36 cr as compared to NPAT of Rs. 17.82 cr on operating income of Rs. 156.60 cr in FY2014-15. The tangible net worth stood at Rs. 51.56 cr in FY2015-16 as against Rs. 44.21 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable)

ICRA has suspended the rating vide release dated August 08, 2016 due to inability to carry out rating surveillance in the absence of the requisite information from the company

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	8.00*	SMERA A2
Bills Purchase	Not Applicable	Not Applicable	Not Applicable	11.00#	SMERA A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA A2
Import Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A2
Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A2

includes sublimit of direct bills Rs. 3.30 crore, cash credit of Rs. 5.00 crore and packing credit of Rs. 5.00 crore

* includes sublimit cash credit of Rs. 6.00 crore and packing credit of Rs.2.00 crore

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ABOUT SMERA

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