

Press Release

S Kant Healthcare Limited

September 25, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 28.50 Cr.
Short Term Rating	ACUITE A2+ (Upgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the short-term rating to '**ACUITE A2+** (**read as ACUITE A two plus**) from **ACUITE A2** (**read as ACUITE A two**) on the Rs. 28.50 crore bank facilities of S Kant Healthcare Limited (SKHL).

The rating upgrade reflects improvement in operating performance, which is expected to be sustained in the medium term. The capital structure of the group continues to remain healthy coupled with sound liquidity position. The rating continues to draw comfort from established position of S Kant Group and healthy profitability margins. However, the rating is constrained by regulatory risk in domestic and export market and susceptibility of profitability to volatility in raw material prices and forex rates.

Mumbai-based, S Kant Healthcare Limited was incorporated in 1990 and is a part of S K Group, established in 1932 by Mr. Sevantilal K. Shah. The company is engaged in the trading of anti-malarial drugs and active pharmaceutical ingredients (API). Another arm of the S K Group, S K Age Export (SKAE), primarily exports to USA, UK and African countries such as Ghana, Tanzania and Nigeria, among others. The day-to-day operations are managed by Mr. Bharat Shah and Mr. Samir Shah.

About the Group

Established in 1932, the S K Group consists of S Kant Healthcare Limited (SKHL) and S K Age Export (SKAE). 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. It is into trading and exporting of formulations and active pharmaceutical ingredients (API).

Analytical Approach

Acuité 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 a common management. Extent of consolidation- Full.

Key Rating Drivers

Strengths

• **Established track record and experienced management**

S K Group has an established track record of more than five decades in the pharmaceutical industry. The promoters, Mr. Bharat Shah, Mr. Samir Shah and Mr. Lalit Shah, are the third generation entrepreneurs and have over two decades of experience in the pharmaceutical sector.

• **Comfortable financial risk profile**

The financial risk profile of the group is marked by healthy net worth, low gearing and above average debt protection metrics. The net worth stood at Rs. 81.35 crore in FY2019 (Provisional) as against Rs 57.84 crore in the previous year. The healthy growth in revenue is due to accretion of profits. The same has resulted in comfortable gearing of 0.24 times as on March 31, 2019 (Provisional) as against 0.47 times in the previous year. The debt protection metrics improved marked by interest coverage ratio of 28.89 times and debt service coverage ratio of 20.89 times in FY2019 (Provisional). Acuité expects the financial risk profile of the company to remain at comfortable levels over the medium term backed by steady accruals and no significant debt funded capex plans.

- **Steady growth in revenue and healthy order book**

The group has registered revenue growth of 26.36 per cent growth in revenue with Rs 207.61 crore in FY2019 (Provisional) as against Rs. 164.29 crore in FY2018. The growth is mainly driven by expansion into new markets including Nigeria, which is one the most populated countries in Africa. The group has been able to successfully register more than 100 brochures in different countries, thereby diversifying its revenue stream. The group has healthy orders in hand amounting to Rs 65.00 crore to be executed in by December 2019. The group has further expanded to EU market and expects the same to driver growth in the medium term. The profitability remained healthy despite marginal decline at 19.58 per cent in FY19 (Provisional) as against 20.04 per cent in the previous year. The net profitability improved from 11.23 per cent in FY2018 to 12.54 per cent in the current year.

Weaknesses

- **Susceptibility of profitability to volatility in raw material prices and regulatory risk**

The group's profitability is susceptible to volatility in raw material prices and foreign exchange rates. The group exports over 90 per cent of its output to Denmark, Ghana, Uganda, and Singapore among others. However, the same is mitigated by selectively hedging its risk exposure. Further, the group is also exposed to the regulatory risk associated with export of medical drugs to USA, UK and African countries among other.

Rating sensitivity

Scaling up of operations, while maintain healthy profit margin.

Liquidity Profile

The liquidity position of the group is strong marked by healthy net cash accruals against its maturing debt obligations. The group generated cash accruals of Rs.25.24 crore to Rs. 30.03 crore during the last three years through 2017-19(Provisional), against Rs 0.08 crore maturing debt obligations over the same period. The cash accruals of the group are estimated to remain comfortable during 2019-21. The cash credit limit in the group remains utilised at 50-70 per cent during the last 6 months period ended August 2019. Acuité believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	207.61	164.29	176.64
EBITDA	Rs. Cr.	40.65	32.93	37.23
PAT	Rs. Cr.	26.03	18.45	20.60
EBITDA Margin	(%)	19.58	20.04	21.08
PAT Margin	(%)	12.54	11.23	11.66
ROCE	(%)	39.46	34.43	40.43
Total Debt/Tangible Net Worth	Times	0.24	0.47	0.59
PBDIT/Interest	Times	28.89	13.07	12.09
Total Debt/PBDIT	Times	0.47	0.80	0.83
Gross Current Assets (Days)	Days	186	197	178

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Consolidation of Companies- <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Aug-19	Bills Discounting	Short Term	8.00	ACUITE A2 Issuer not co-operating*
	Bills Discounting	Short Term	11.00	ACUITE A2 Issuer not co-operating*
	Bank guarantee/Letter of Guarantee	Short Term	3.50	ACUITE A2 Issuer not co-operating*
	Letter of credit	Short Term	6.00	ACUITE A2 Issuer not co-operating*
02-Jun-18	Bills Discounting	Short Term	8.00	ACUITE A2 (Reaffirmed)
	Bills Discounting	Short Term	11.00	ACUITE A2 (Reaffirmed)
	Bank guarantee/Letter of Guarantee	Short Term	3.50	ACUITE A2 (Reaffirmed)
	Letter of credit	Short Term	6.00	ACUITE A2 (Reaffirmed)
02-Mar-2017	Bills Discounting	Short Term	8.00	ACUITE A2 (Assigned)
	Bills Discounting	Short Term	11.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	3.50	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A2 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	8.00*	ACUITE A2+ (Upgraded)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Upgraded)
Post Shipment	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2+ (Upgraded)
Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A2+ (Upgraded)
Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2+ (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE A2+ (Upgraded)

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

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About Acuité Ratings & Research:

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