

Press Release

S Kant Healthcare Limited

August 05, 2022



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	28.50	-	ACUITE A2+ Upgraded
Bank Loan Ratings	4.25	ACUITE A- Stable Assigned	-
Bank Loan Ratings	44.50	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	77.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.28.50 Crore bank facilities of S Kant Healthcare Limited (SKHL).

Acuite has assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 48.75 Crore bank facilities of S Kant Healthcare Limited (SKHL). The outlook is '**Stable**'.

Rationale for Upgrade

The rating has been upgraded on account of increase in scale of operations, improvement in profitability of the group, healthy financial risk profile and strong liquidity. Company's scale of operations have increased year on year since FY 2020 and operating income has improved to Rs. 303.49 Cr in FY 2022 (Provisional). Profitability margins are healthy wherein EBITDA margin stood at 24.80% and PAT margin at 15.23% in FY 2022 (Provisional). Financial risk profile is healthy with strong net worth, comfortable gearing and strong coverage indicators while the group's liquidity is strong in terms of buffer in working capital limits, cash and bank position, investments and net cash accruals generated.

About Company

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 the year 1932 and specializes in the business of pharmaceuticals. The current directors of the company are Mr. Bharat Shah, Mr. Samir Shah, Mr. Lalit Shah, Mr. Mahesh Shah, Mr. Ritesh Shah and Mr. Mahesh Kolambe. SKHL is engaged in the manufacturing of antimalarial drugs and various active pharmaceutical ingredients (API). The company has a registered office in Worli, Mumbai and a manufacturing unit in Vapi, Gujarat.

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 anti-malarial drugs and active pharmaceutical ingredients (API) at Vapi, Gujarat. SKAE was established in 1990 by Mr. Bharat Shah and Mr. Samir Shah and is into trading and exporting of formulations and active pharmaceutical ingredients (API).

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has taken a consolidated view of S Kant Healthcare 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.

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.

Healthy financial risk profile

The financial risk profile of the group is healthy marked by strong net worth, comfortable gearing and strong coverage indicators. Total tangible net worth of the group stood at Rs. 110.42 Cr as on 31st March 2022 as against Rs. 94.29 Cr in the previous year. The entire profits generated by the group have not been transferred to reserves and surplus since the partners in group concern SK Age Exports have been making withdrawals every year. Debt to Equity ratio stood comfortable at 0.26 times in FY 2022 as against 0.26 times in FY 2021. Total debt of Rs. 28.60 Cr in FY 2022 consists of Rs. 12.84 Cr of unsecured loans and Rs. 15.76 Cr of working capital borrowings. Interest coverage Ratio remained strong at 30.21 times in FY 2022 as against 19.96 times in FY 2021 while DSCR has improved to 22.09 times in FY 2022 as against 14.56 times in FY 2021. NCA/TD improved from 0.84 times in FY 2020 to 1.76 times in FY 2021 and stood at 1.86 times in FY 2022. Going forward the team believes that the financial risk profile will remain strong in the coming times.

Growth in revenue and margins

The group has achieved revenue of Rs. 303.49 Cr in FY 2022 (Provisional) and has exceeded Acuite's projections by 24.26%. In FY 2021 (Audited), the group has earned revenue of Rs. 266.92 Cr as against Rs. 165.99 Cr in FY 2020. The revenues registered significant growth in FY 2021 because the group fulfilled pent up demand of FY 2020 which got stuck due to lockdown imposed because of covid pandemic since majority of dispatches happens in March quarter. Also a new anti-malarial product was approved by WHO which positively impacted sales in FY 2021. In the current year the order book position stands at Rs. 91.62 Cr of which majority of orders are to be fulfilled by October-November 2022.

Group's profitability has improved year on year since FY 2020. Group's EBITDA margin has improved to 22.35% in FY 2021 (Audited) as against 20.73 % in FY 2020 and further improved to 24.80 % in FY 2022 (Provisional). PAT margin has increased year on year from 10.31% in FY 2020 to 13.52% in FY 2021 (Audited) and further increased to 15.23% in FY 2022 (Provisional). Since majority of sales of the group is in export segment wherein the group is earning better realization and the appreciation of dollar has positively impacted margins in these fiscals and the group is expected to maintain these healthy levels in the near term.

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 major portion of its output to USA, Ghana, Uganda, and Nigeria 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 Sensitivities

- Growth in scale of operations
- Working capital management.

Material Covenants

None.

Liquidity Position: Strong

Group's liquidity position is strong in terms of buffer in limits, cash and bank position, investments and net cash accruals generated. The company has generated cash accrual of Rs. 53.12 Cr in FY 2022 against nil maturing debt obligations. Going forward the company is expected to generate net cash accruals of Rs. 34.31 Cr and Rs. 38.90 Cr in FY 2023-24 against nil debt obligations. The cash and bank position for FY 2022 stood at Rs. 7.54 Cr while current ratio for the period stood at 1.84 times. Average bank Limit Utilization between November 2021 and June 2022 stood low at -13.43%. Investments of Rs. 14.84 Cr in FY 2022 contains investments in mutual funds of Rs. 13.50 Cr.

Outlook : Stable

Acuité believes SK Group will maintain a stable business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the group's financial risk profile or higher than expected working capital requirements.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	303.49	266.92
PAT	Rs. Cr.	46.21	36.07
PAT Margin	(%)	15.23	13.52
Total Debt/Tangible Net Worth	Times	0.26	0.26
PBDIT/Interest	Times	30.21	19.96

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

Not Applicable.

Any Other Information

None.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Mar 2022	Bills Discounting	Short Term	5.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Bills Discounting	Short Term	8.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Short Term	6.50	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Post Shipment Credit	Short Term	2.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
09 Dec 2020	Letter of Credit	Short Term	0.50	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Post Shipment Credit	Short Term	2.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Short Term	6.50	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bills Discounting	Short Term	8.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
25 Sep 2019	Letter of Credit	Short Term	0.50	ACUITE A2+ (Upgraded from ACUITE A2)
	Bills Discounting	Short Term	8.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Post Shipment Credit	Short Term	2.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Bills Discounting	Short Term	5.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Bank Guarantee	Short Term	0.50	ACUITE A2+ (Upgraded from ACUITE A2)
	Proposed Bank Facility	Short Term	6.50	ACUITE A2+ (Upgraded from ACUITE A2)
21 Aug 2019	Letter of Credit	Short Term	6.00	ACUITE A2 (Issuer not co-operating*)
	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	Short Term	3.50	ACUITE A2 (Issuer not co-operating*)
	Bills Discounting	Short Term	8.00	ACUITE A2 (Reaffirmed)

02 Jun 2018	Bills Discounting	Short Term	11.00	ACUITE A2 (Reaffirmed)
	Bank 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2+ Upgraded
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2+ Upgraded
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+ Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.25	ACUITE A- Stable Assigned
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A2+ Upgraded
HDFC Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	21.50	ACUITE A2+ Upgraded
HDFC Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	43.50	ACUITE A2+ Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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