



Press Release
S Kant Healthcare Limited
October 26, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.25	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	73.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	77.25	-	-

Rating Rationale

Acuite has reaffirmed 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.77.25 Crore bank facilities of S Kant Healthcare Limited (SKHL). The outlook is '**Stable**'.

The rating takes into account the improved operating performance and healthy financial profile of S K group. The operating income of group has been consistently growing since the last two years from FY2023. The Company's revenue stood at Rs.336.31 Cr in FY2023 as against Rs. 303.18 Cr in FY2022. The operating margins ranged between 21.44 - 24.38 percent for the last two years ended FY2023. The financial risk profile of group continues to be healthy with healthy debt protection metrics and minimal gearing. The overall gearing of the Company stood at 0.31 times as on March 31, 2023 as against 0.26 times as on March 31, 2022. The interest coverage ratio stood at 26.18 times in FY2023 as against 25.55 times in FY2022.

The rating continues to derive strength from the extensive experience of the promoters, healthy financial risk profile with healthy debt protection metrics. The rating is constrained by working capital intensive operations, susceptibility of profitability to volatility in raw material prices and regulatory risk tender-driven nature of the business.

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)

Standalone (Unsupported) Rating

None

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.

- **Stable revenue and operating margins**

The scale of operations of the S K Group has been improving last two ending FY2023. The revenues stood at Rs.336.31 Cr in FY2023 as compared to Rs.303.18 Cr in FY2022. Further, the operating margin was in the range of 21.44 percent to 24.38 percent over the past 2 years ended FY2023. Acuité believes, the group is expected to maintain these healthy levels in the near term.

- **Healthy financial risk profile**

The group's financial risk profile is marked by a healthy net worth, gearing and debt protection metrics. The net worth of the company stood at Rs.141.90 Cr and Rs.108.78 Cr as on March 31, 2022 and 2023 respectively. The improvement in net worth is due to accretion of reserves. The gearing of the company stood at 0.31 times as on March 31, 2023 against 0.26 times as on March 31, 2022. The slight deterioration in the gearing is because of increase in short debt portion. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 26.18 times and 19.17 times as on March 31, 2023 respectively as against 25.55 times and 18.60 times as on March 31, 2022 respectively. TOL/TNW (Total outside liabilities/Total net worth) stood at 0.97 times and 0.84 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 0.60 times as on March 31, 2023 as against 0.38 times as on March 31, 2022. Acuité believe, that the financial risk profile is expected to be at similar levels over the medium term considering no debt funded expansion planned in near future.

Weaknesses

- **working capital intensive operations**

Group's working capital operations are intensive in nature with from Gross Current Asset (GCA) at 226 days as on March 31, 2023 as against 172 days as on March 31, 2022. The GCA days are impacted mainly due to increase in cash balance and increase in Other current assets. Inventory days stood at 87 days as on March 31, 2023 as against 73 days as on March 31, 2022. Subsequently, the payable period stood at 146 days as on March 31, 2023 as against 115 days as on March 31, 2022 respectively. The debtor day stood at 91 days as on March 31, 2023 as against 100 days as on March 31, 2022. Further, the average bank limit utilization in the last 12 months ended August 2023 remained at 52 percent for fund-based limits.

- **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

- Movement in scale of operations
- Movement in Working capital cycle

All Covenants

None

Liquidity Position: Strong

Group has strong liquidity marked by healthy net cash accruals as against which the group has no repayment obligations. The group has generated cash accruals in the range of Rs.50.63 Cr in FY2023 ,while its maturing debt obligations were NIL during the same period. Going forward the company is expected to generate net cash accruals of Rs. 64-71 Cr in FY 2024-25 against nil debt obligations. The current ratio stood at 1.64 times as on March 31, 2023 and the fund based limit remains utilized at 52 percent over the 12 months ended August 31, 2023. The group maintains unencumbered cash and bank balances of Rs.38.05 Cr as on March 31, 2023. Acuité believes that groups liquidity will remain strong over the medium term backed by healthy net cash accruals.

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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	336.31	303.18
PAT	Rs. Cr.	42.78	44.61
PAT Margin	(%)	12.72	14.71
Total Debt/Tangible Net Worth	Times	0.31	0.26
PBDIT/Interest	Times	26.18	25.55

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

None

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Aug 2022	Bank Guarantee	Short Term	0.50	ACUITE A2+ (Upgraded from ACUITE A4)
	Bank Guarantee	Short Term	0.50	ACUITE A2+ (Upgraded from ACUITE A4)
	Cash Credit	Long Term	4.25	ACUITE A- Stable (Assigned)
	Post Shipment Credit	Short Term	43.50	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A2+ (Upgraded from ACUITE A4)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Assigned)
	Post Shipment Credit	Short Term	21.50	ACUITE A2+ (Upgraded from ACUITE A4)
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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE A2+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.25	ACUITE A- Stable Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	Simple	65.00	ACUITE A2+ Reaffirmed

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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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